

## THE CHANNEL ISLANDS AND THE EU: FINANCIAL SERVICES

### Introduction

1. The Channel Islands (the Islands) comprise the Bailiwicks of Guernsey and Jersey. They are British Crown Dependencies and so are not part of the United Kingdom, but the UK has ultimate responsibility for their external affairs and defence. The Islands enjoy a high degree of autonomy, including their own fiscal and legal systems. By virtue of Protocol 3 of the UK's Accession Treaty, the Islands are currently part of the EU Customs Union. This will change following Brexit. They are already outside the EU in all other respects, including financial services (FS). As third countries, the Islands maintain a "good neighbour" policy towards the EU and have built up close cooperation with the EU and individual Member States in many areas.
2. Over the past 50 years Guernsey and Jersey have developed into specialist financial centres. They are significant net providers of liquidity and investment funds to the EU economy, directly and indirectly. They meet international investors' needs through their access to a wide range of assets and markets, their tax transparency, their high quality regulatory environment and their highly-skilled professional services sector which makes up almost a quarter of the total workforce in the Islands.

### Financial Regulation and Supervision

3. The Islands have robust and internationally respected financial regulation. The Jersey Financial Services Commission (JFSC) and the Guernsey Financial Services Commission (GFSC) are the Islands' independent, consolidated financial regulators covering prudential, conduct of business, anti-money laundering and countering the financing of terrorism (AML-CFT). They also supervise other (non-FS) businesses for AML-CFT to ensure consistent and effective application of the Islands' legal regime.
4. The FSCs enjoy excellent regulatory cooperation with their EU counterparts, including the European Supervisory Authorities (ESAs). They also enjoy a respected profile in international standards bodies, as active members of the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS). Both Islands gain from a Commission Decision which considers their supervisory and regulatory requirements as equivalent for the purposes of the treatment of banking exposures (renewed in 2019). Both interact regularly with EU Member State authorities in the supervisory colleges of cross-border banks.
5. The regulatory cooperation with national regulators and the ESAs is complemented by regular engagement by the FSCs and the Guernsey and Jersey officials with the EU Institutions in Brussels, coordinated by the Channel Islands Brussels Office. This is underpinned at political level by regular Ministerial visits.
6. Under the EU Statutory Audit Directive, the Guernsey and Jersey 'equivalence' decisions (2013) confirm that the *'public oversight, quality assurance, investigation and penalty systems of the islands are of a comparable standard to EU Member States'*. In June 2016, the European Commission granted an adequacy decision which allows Jersey and Guernsey competent authorities and the EU Member States to transfer audit papers.
7. The Channel Islands Financial Ombudsman (CIFO) resolves complaints about financial services provided in or from the Islands. CIFO is an active member of the International Financial Services Ombudsman (INFO) Network and is an Official Observer and Affiliate Member of the EU Financial Dispute Resolution Network (FIN-NET).

- Both Islands' Company Registers actively participate in the European Business Register (EBR), the European network of national business registers and information providers from 25 European countries.

#### Funds

- The Islands are leading funds domiciles, with institutional and retail funds under management and administration totalling over £638 billion (June 2019). The nature of capital flows makes it difficult to accurately measure the flow of investment to the EU. However a 2016 study estimated that Jersey is a conduit for €188bn of foreign investment into the EU27 (excluding the UK), equivalent to 4% of total net international investment; while a 2015 study of Guernsey's fund management industry identified that, of the £220 billion of Guernsey funds under management and administration, around £105 billion, is invested into assets in Europe. Over half of these funds originated from outside of the EU.
- More than 50 European Investment Fund (EIF) equity transactions involve CI domiciled funds. This cornerstone and other funding from the EIF has enabled investors to support EU start-ups and mid-caps in ICT, the life sciences, energy & environment and renewable energy.
- The Islands regulators were among the first to conclude ESMA-negotiated MoUs, in relation to the Alternative Investment Fund Managers Directive (AIFMD) concerning hedge funds and private equity funds and their managers. This has enabled licensed CI managers to access EU Member State markets through national private placement regimes (NPPR). In July 2015 and again in July 2016 Jersey and Guernsey, received positive assessments by ESMA regarding their suitability for passporting. The decision will be taken by the European Commission and is currently delayed pending the outcome of a review of AIFMD.

#### Banking

- The Islands are part of the Sterling Zone and are part of the UK's payment and clearing system. There are 22 licensed banks in Guernsey and 25 in Jersey. Both jurisdictions have deposit compensation schemes. The combined level of banking deposits across the Islands is £228.9 billion (as of June 2019). These deposits are drawn into the UK and the EU largely from the rest of the world.
- In 2016 the Islands were admitted to the geographic scope of the Single Euro Payment Area (SEPA) cross-border bank payment schemes for credit transfers, direct debits and debit card purchases having been assessed as fulfilling the criteria for third countries to be included in the geographic scope. Both Islands have voluntarily transposed the relevant parts of the EU Payment Services Directive (PSD and PSD II) into domestic legislation to enable payments in Euros between Channel Islands banks and SEPA Member banks.

#### Other aspects of the Islands' FS sector

- The Islands are leading international **fiduciary** centres, hosting a wide range of services which are governed by modern trust and company law. Trust and Company Service Providers (TCSPs) have been regulated since 2000, this means TCSPs must hold and keep up to date beneficial ownership information for all companies administered by them. TCSPs are subject to routine, ongoing onsite and offsite supervision of all aspects of their activities. Both Islands played a key role in creating a comprehensive global standard for effective TCSP regulation and supervision through the Group of International Finance Centre Supervisors (GIFCS), which was published in 2014. Jersey was the first member jurisdiction to be assessed under the standard and was awarded top ratings in April 2019.

15. The Islands are committed to **sustainable finance**. In 2018, Guernsey joined the UN Financial Centres for Sustainability (FC4S) Network and committed to supporting strategic action on green and sustainable finance. This led to Guernsey's Green Finance Initiative which creates a supportive environment, including a Green Fund regulatory regime, resulting in more than £4 billion of assets under management. In September 2019, the GFSC joined the Network for Greening the Financial System (NGFS) of central bankers and supervisors. Both Islands participate actively in the relevant IOSCO committees. Jersey has supported socially responsible investing (SRI) for some time and its industry estimates that some £7.4 billion is invested in such funds. Jersey professionals also set up and service a range of structures which support SRI investment objectives. Both Islands support TISE GREEN, a new market segment created on the CI-based securities exchange, which covers bonds, funds and trading companies that meet globally recognised green standards.
16. Guernsey and Jersey actively encourage **technological innovation**. Both Islands have developed their legislative and regulatory regime to promote the use of safe, secure and efficient technology, for instance for electronic customer due diligence. Both Islands offer supportive environments for Fintech and Regtech (Sand Box Jersey and Guernsey's Innovation SoundBox). Both FSCs participate actively in the relevant IOSCO committees and are members of the international group of financial regulators and related organisations, Global Financial Innovation Network (GFIN), which has been set up to share experiences and approaches.
17. Guernsey is host to Europe's largest captive **insurance** industry. Thanks to cross-sectoral work between the funds industry and the insurance-linked securities (ILS) sub-sector, Guernsey offers the world's first dual-regulated insurance and fund product.

#### Further information

18. Further information about the public authorities in Guernsey and Jersey and other aspects of Channel Islands cooperation with the EU, including on tax and tackling financial crime, can be found on the Channel Islands Brussels Office website.

*Channel Islands Brussels Office,  
21 October 2019*