

BAILIWICK OF GUERNSEY
2024 NATIONAL RISK ASSESSMENT REPORT

LEGAL PERSONS
AND
LEGAL ARRANGEMENTS

April 2024



FOREWORD

1. We are pleased to introduce this public report concerning the Bailiwick of Guernsey's money laundering, terrorist financing and financing of proliferation of weapons of mass destruction risks from legal persons and legal arrangements.
2. This report follows, and supplements, the report on the Bailiwick of Guernsey's second "national" risk assessment on money laundering, terrorist financing and financing of proliferation of weapons of mass destruction published in December 2023 and colloquially called NRA2. As explained in the foreword to NRA2, when NRA2 was published, it was decided to publish a separate risk assessment of legal persons and legal arrangements in 2024, in order to facilitate maximum benefit to all stakeholders and ease of use.
3. The assessment leading to this report is the latest in a series of assessments of risk which has been undertaken by the authorities. The ambition of the authorities has been to build on the earlier assessments and add tangible value. The importance of assessing risk in this area is underlined by its inclusion as the first strategic pillar in the Bailiwick's 2023 National Strategy for Combatting Money Laundering, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction.
4. Therefore, this report includes new information and analysis. This includes the patterns in relation to the use of legal persons and legal arrangements that have been disclosed by the notifications of possible sanctions matches and licence applications received by the authorities in relation to the extensive financial and sectoral sanctions imposed on the Russian Federation following its invasion of Ukraine. This additional information and analysis have been used to update the findings in relation to legal persons and legal arrangements in the previous national risk assessment report issued in January 2020, and to make findings for the first time about the risks they pose in relation to financing of proliferation of weapons of mass destruction.
5. We hope this report, and the detailed information it contains about legal persons and legal arrangements, will benefit not only the authorities but also the private sector.
6. As confirmed in the foreword to NRA2, the political and operational authorities will continue to seek to add tangible value as we move forward in fighting criminality, in protecting our community and in emphasising the Bailiwick's role as a good international citizen. Our aim is to ensure that the Bailiwick remains a hostile environment for criminals. Our vision is to prevent harm to our society and international stakeholders, upholding the position of the Bailiwick as a responsible and cooperative financial centre and supporting legitimate growth and prosperity. To that

end, the identification and assessment of all risks, including those of legal persons and legal arrangements, will continue to be a priority.

Policy & Resources Committee

Committee *for* Home Affairs

Committee *for* Economic Development, States of Guernsey

Policy & Finance Committee, States of Alderney

Policy & Finance Committee, Chief Pleas of Sark

April 2024

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GLOSSARY

AGCC	Alderney Gambling Control Commission
AML	Anti-Money Laundering
BVI	British Virgin Islands
CDD	Customer Due Diligence
CFT	Countering the Financing of Terrorism
CFP	Countering the Financing of the Proliferation of WMD
CIS	Collective Investment Scheme
CSP	Corporate Service Provider
EBT	Employee Benefit Trust
EFCB	Economic & Financial Crime Bureau
ESG	Environmental, Social and Governance
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
GBA	Guernsey Border Agency
GCRA	Guernsey Competition & Regulatory Authority
GFSC	Guernsey Financial Services Commission
IC	Incorporated Cell
ICC	Incorporated Cell Company
IFC	International Financial Centre
IMF	International Monetary Fund
IPO	Initial Public Offering
K&R	Kidnapping and Ransom
ML	Money Laundering
MLA	Mutual Legal Assistance
NPO	Non-Profit Organisation
NRA	National Risk Assessment
PCC	Protected Cell Company
PF	Proliferation Financing

RAC	Retirement Annuity Contract
RATS	Retirement Annuity Trust Scheme
PTC	Private Trust Company
TCSP	Trust & Corporate Service Provider
TF	Terrorist Financing
WMD	Weapons of Mass Destruction

EXECUTIVE SUMMARY

1. This document comprises a report on the findings of an assessment of the money laundering, terrorist financing and proliferation financing risks to the Bailiwick of Guernsey presented by legal persons and legal arrangements. It supplements a report on these risks in relation to other sectors and products that was published in December 2023 (NRA2). Like NRA2, this report has developed the findings of the first NRA (NRA1) based on the further knowledge and findings of the authorities, informed by regional and local developments.
2. NRA2 found that as an IFC with a low domestic crime rate, the Bailiwick's greatest money laundering, terrorist financing and proliferation financing risks from legal persons and legal arrangements related to its cross-border business. Subject to that overarching finding, the level of threat varies as between these three forms of crime, as does the way in which the Bailiwick is most likely to be used for each. The findings in NRA2 about these issues are equally relevant to legal persons and legal arrangements. Therefore, this report should be read in conjunction with NRA2.
3. Also, in line with NRA2, a finding of this report is that where legal persons or legal arrangements have links with foreign jurisdictions, in the vast majority of cases those are jurisdictions with AML/CFT/CFP regimes that are equivalent to the AML/CFT/CFP regimes in the Bailiwick, and links to other jurisdictions are low. Specifically, links to jurisdictions that present a high risk of money laundering, terrorist financing or proliferation financing range from very low to negligible or non-existent. It is however recognised that the absence of any identified link to a jurisdiction of concern does not mean that these links do not exist. This is particularly the case where the Bailiwick link is to another financial centre that is acting as an entrepot, whose own links to other jurisdictions will not always be obvious. Furthermore, as identified in NRA2, the Bailiwick is often a long way down a chain of transactions so any links between the use of legal persons or legal arrangements and criminality may be hard to detect. Risk ratings have therefore been assigned with this caveat in mind.
4. The findings with regard to the risk ratings for different types of legal person and legal arrangement are set out in the tables below. When considering these ratings, three points should be noted. First, these ratings, which like those in NRA2 are based on a slightly expanded version of the rating scale in the IMF methodology, are relative as between different legal persons and legal arrangements rather than absolute. Second, these ratings

are applied at category level, but that does not mean that they apply to every legal person or legal arrangement in the relevant category. For example, while discretionary trusts and GFSC licensee administered companies involved in asset holding or management are assessed as higher risk for money laundering, the risk profile of individual entities in these categories will vary, and some would be given a lower risk rating if assessed individually. Ultimately the risk rating attributed by a firm will also encompass other factors which may raise or reduce the overall risk of a legal person or legal arrangement. Third, the ratings are for residual risks, i.e., the risks that remain when the mitigating factors applicable to a legal person or legal arrangement have been taken into account. A key factor in this context is that the vast proportion of legal persons and legal arrangements with a cross-border link are administered by a GFSC licensee who is supervised by the GFSC for its compliance with the AML/CFT/CFP framework.

5. Although the findings set out in this report are broken down into more detail than those on legal persons and legal arrangements in NRA1, the overarching findings of the two assessments are essentially the same. With regard to money laundering, this is that the greatest risk comes from legal persons and legal arrangements that are used in relation to cross border business involving the holding or management of assets. Next in order of significance are the risks from legal persons and legal arrangements that are used in other forms of cross-border business, followed by legal persons and legal arrangements with a domestic focus. With regard to terrorist financing, subject to the finding that this is much less likely to occur than money laundering, the greatest risk comes from the use of legal persons involved in cross border activity being used in relation to foreign terrorist activity, followed by legal persons with a domestic focus and all legal arrangements. As regards domestic terrorist activity, all forms of legal person and legal arrangements are considered to be at a very much lower risk of being used for this purpose. The findings for proliferation financing risks are essentially in line with those for the risks of financing foreign terrorist activity.
6. Therefore, measures that have been put in place by the authorities and the private sector to address the findings of NRA1 in relation to legal persons and legal arrangements remain appropriate in relation to the findings in this report.

MONEY LAUNDERING RISKS¹	
RESIDUAL RISK RATING	LEGAL PERSON/LEGAL ARRANGEMENT
Very much higher	
Much higher	
Higher	Administered non -cellular Guernsey companies (asset holding/management)
	Foreign legal persons
	Discretionary trusts (non -pension etc./EBTs)
Medium	Supervised non -cellular Guernsey companies (collective investment schemes)
	Administered non -cellular Guernsey companies (other purposes)
	Cellular Guernsey companies
	Purpose trusts
	Limited partnerships with legal personality
	Limited partnerships without legal personality
	Foreign legal arrangements
Medium Lower	Non– administered non -cellular Guernsey companies – cross border
	Alderney companies (cross border)
	Foundations
	Limited liability partnerships
	Retirement annuity trusts
	Occupational pension schemes
	Employee benefit scheme trusts
	General partnerships (cross border)
Lower	Supervised non-cellular Guernsey companies (financial services businesses etc.)
	Non– administered non -cellular Guernsey companies (domestic)
	Alderney companies (domestic)
	General partnerships(domestic)
Much Lower	
Very much lower	

¹ Legal persons and legal arrangements within each risk category are listed in the order in which they appear in the main body of the report

TERRORIST FINANCING RISKS²	
RESIDUAL RISK RATING	LEGAL PERSON/LEGAL ARRANGEMENT
Very much higher	
Much higher	
Higher	
Medium Higher	
Medium	
Medium Lower	
Lower (financing foreign terrorist activity)	Supervised non -cellular Guernsey companies (collective investment schemes)
	Supervised Guernsey companies (K&R insurance)
	Administered non -cellular Guernsey companies (asset holding/management)
	Administered non -cellular Guernsey companies (other purposes)
	Non– administered non -cellular Guernsey companies (cross border)
	Cellular Guernsey companies
	Alderney companies (cross border)
	Limited partnerships with legal personality
	Foundations
	Limited liability partnerships
	Foreign legal persons
	Discretionary trusts (non -pension etc./EBTs)
	Purpose trusts
	Retirement annuity trusts
	Occupational pension schemes
	Employee benefit scheme trusts
Much lower (financing foreign terrorist activity)	Supervised non -cellular Guernsey companies (financial services businesses etc.)
	Non– administered non-cellular Guernsey companies (domestic)
	Alderney companies (domestic)
	General partnerships (domestic)
Very much lower (financing domestic terrorist activity)	All legal persons and legal arrangements

² Legal persons and legal arrangements within each risk category are listed in the order in which they appear in the main body of the report

PROLIFERATION FINANCING RISKS³	
RESIDUAL RISK RATING	LEGAL PERSON/LEGAL ARRANGEMENT
Very much higher	
Much higher	
Higher	
Medium Higher	
Medium	
Medium Lower	
Lower	Supervised non -cellular Guernsey companies (collective investment schemes)
	Supervised Guernsey companies (marine insurance)
	Administered non -cellular Guernsey companies (asset holding/management)
	Administered non -cellular Guernsey companies (other purposes)
	Non– administered non -cellular Guernsey companies (cross border)
	Cellular Guernsey companies
	Alderney companies (cross border)
	Limited partnerships with legal personality
	Foundations
	Limited liability partnerships
	Foreign legal persons
	Discretionary trusts (non -pension etc./EBTs)
	Purpose trusts
	Retirement annuity trusts
	Occupational pension schemes
	Employee benefit scheme trusts
	General partnerships (cross border)
Limited partnerships without legal personality	
Foreign legal arrangements	
Much lower	Supervised non -cellular Guernsey companies (financial services businesses etc.)
	Non– administered non-cellular Guernsey companies (domestic)
	Alderney companies (domestic)
	General partnerships (domestic)
Very much lower	

³ Legal persons and legal arrangements within each risk category are listed in the order in which they appear in the main body of the report

INTRODUCTION

Background

1. The potential for criminals to use legal persons and legal arrangements to perpetrate criminality or to put distance between themselves and their assets is a well-known international concern. In recognition of this, the Bailiwick has a longstanding public commitment to promoting transparency of legal persons and legal arrangements and has had measures in place to achieve this for many years. The starting point was the introduction nearly 25 years ago of a prudential licensing and supervisory regime for TCSPs, who are also treated as financial services businesses under the AML/CFT/CFP framework. This commitment has been underlined by various measures introduced since then and is also reflected in targeted work that has been carried out over many years to assess the specific risks that legal persons and legal arrangements present to the Bailiwick.
2. The risks of money laundering, terrorist financing and proliferation financing presented by legal persons and legal arrangements were most recently identified and assessed as part of the process that led to the publication in December 2023 of a report on the findings of the Bailiwick's second NRA, NRA2. This document comprises a report on the findings of this work. As with the other work involved in NRA2, the work in relation to legal persons and legal arrangements was coordinated by the Anti-Financial Crime Advisory Committee⁴ and it built on previous risk assessment work in this area carried out by the authorities over many years.
3. Legal persons and legal arrangements were included in the report on the Bailiwick's first NRA, NRA1. The different approach with NRA2, with the publication of this report on legal persons and legal arrangements separately from the main report, reflects the fact that considerably more information was available for NRA2 than had been available for NRA1. This is for two main reasons.
4. First, after NRA1 the range of details that legal persons were obliged to provide to the Guernsey and Alderney Registries was significantly increased. Second, changes to the data obtained by the GFSC and the Revenue Service since NRA1 have meant that both organisations now hold much more information than before about legal persons and

⁴ The Anti-Financial Crime Advisory Committee comprises senior representatives from government and the AML/CFT/CFP authorities, but also includes representatives from other authorities whose functions are relevant to addressing financial crime

legal arrangements. This additional information has enabled more detailed analysis of the risk factors affecting each type of legal person and legal arrangement under NRA2 than was the case with NRA1.

5. Given the importance attached to these issues by the international community, it was considered important to put this more detailed information on the risks of the different forms of legal persons and legal arrangements in the public domain. However, this would have greatly increased the length of the report on NRA2 and would have meant a disproportionate focus on legal persons and legal arrangements compared to other sectors and products. Therefore, it was decided to publish this information separately from the report on NRA2, as a follow up report. This document should therefore be read in conjunction with the report on NRA, especially because NRA2 includes case studies that involve legal persons and legal arrangements.
6. Under NRA2, the principal money laundering threat to the Bailiwick was identified as coming from the laundering of the proceeds of foreign criminality, in line with its status as an IFC with a low domestic crime rate. The underlying offences most likely to be involved were identified as bribery and corruption, fraud and tax evasion, followed by drug trafficking. NRA2 also found that the laundering of foreign criminal proceeds was likely to involve a chain of transactions across several jurisdictions, with the Bailiwick at or towards the end of the chain. As regards laundering the proceeds of domestic criminality, the threat of this, while much lower, was found primarily to arise from drug trafficking, fraud and tax evasion and the laundering activity involved was likely to be more straightforward than for foreign proceeds.
7. As regards terrorist financing, NRA2 found that this is most likely to involve the Bailiwick's cross-border business being used to support foreign terrorism, by funds being passed through or administered from the jurisdiction. This might also include secondary terrorist financing i.e. where criminal proceeds were used to fund terrorism from cross-border business. The possibility was also identified of funds raised in the Bailiwick for legitimate purposes being diverted subsequently to support foreign terrorism. However, all of these forms of terrorist financing were considered much less likely to occur than money laundering. Funds being raised in or sent into the Bailiwick to support domestic terrorist activity was considered extremely unlikely, given the jurisdiction's demographic, geographical, political and cultural profile.
8. The findings in NRA2 about the threats from proliferation financing essentially mirrored those in relation to terrorist financing. International concern about proliferation financing is focused on the proliferation programmes of Iran and North Korea. The Bailiwick's exposure to the financing of these programmes arises from its cross-border

business. As with terrorist financing, this exposure was considered to be much lower than the Bailiwick's exposure to money laundering.

9. The analysis in NRA2 of these various threats applies to legal persons and legal arrangements in the same way as to other sectors and products used or created in the Bailiwick, that analysis is not, therefore, repeated in this report. Instead, this report focuses on the vulnerabilities which different types of legal person and legal arrangement present to those threats.

Process

10. Like the rest of the work leading up to NRA2, this report is based on the IMF Methodology for assessing risk, which envisaged the use of a 7-point scale. As with the first NRA process and NRA2, two additional grades have been added to the scale, Medium Higher and Medium Lower. This enables degrees of differentiation between particular forms of legal person and legal arrangement to be more fully reflected in the final risk ratings. The absence of any reduction for consequence in NRA2 (on the basis that the probable consequences to the Bailiwick of money laundering, terrorist financing and proliferation financing are assessed as being severe in all cases), has also been retained in this report. Therefore, the residual risk ratings detailed in this report take into account threat, vulnerability and consequence.
11. When considering the risk ratings, it should be noted that they are residual, after inherent risk has been reduced to take account of mitigating measures.
12. It should also be noted that the risk ratings are relative rather than absolute. In other words, a higher rating for a specific form of legal person or legal arrangement does not mean that the legal person or legal arrangement is high risk compared with corresponding legal persons or legal arrangements in other jurisdictions. This is a particularly important consideration given that in many jurisdictions where corresponding legal persons or legal arrangements may be created, the TCSP sector is not subject to a licensing regime in the way that it is in the Bailiwick.
13. Another important consideration is that while these ratings are applied at category level, that does not mean that they apply to every legal person or legal arrangement in the relevant category. For example, while discretionary trusts and GFSC licensee administered companies involved in asset holding or management are assessed as higher risk for money laundering, the risk profile of individual entities in these categories will vary, and some would be given a lower risk rating if assessed individually. Ultimately the risk rating attributed by a firm will also encompass other factors which may raise or reduce the overall risk of a legal person or legal arrangement.

14. It is also important to note that because this is a “national” risk assessment which applies relative risk ratings to all forms of legal person and legal arrangements, the ratings in this report may differ from those assigned by individual authorities to a particular class of legal person or legal arrangement for which they have operational responsibility. For example, the risk ratings for Alderney companies take into account their materiality and vulnerabilities when compared with those of other legal persons, as distinct from the ratings assigned to different types of Alderney company by the Alderney Registrar for the purposes of oversight etc.
15. The assessment of the risks of legal persons and legal arrangements was based on the same wide range of qualitative and quantitative information as that used for the rest of the work on NRA2, as described in the introduction to NRA2. This included cross-checking findings against a range of independent indicators, namely external perceptions, reports of suspicion, requests for assistance received from other jurisdictions and queries in relation to international sanctions.
16. One notable difference since NRA1 has been the information available about sanctions, following the imposition of extensive financial and sectoral sanctions on the Russian Federation as a result of its invasion of Ukraine. As indicated in NRA2, the Russian Federation has historically not been a major source of business for the Bailiwick as underlined by the small number of business relationships where asset values were significant. Nonetheless all three of these relationships involved Guernsey discretionary trusts and companies. The international reach of Russian interests was also evident in a moderate number of reports from the investment sector. The exposure came either from underlying assets held by the Guernsey legal person or legal arrangement collective investment scheme or via an investment into the scheme, in most cases made via an intermediate foreign corporate vehicle administered outside the Bailiwick, demonstrating that Guernsey administrators were adept at ascertaining beneficial ownership and taking action to freeze investments and report relationships to the authorities. There was also a small exposure to Russian designated persons for cellular companies used in the provision of crew and yacht management services.
17. Where links to other jurisdictions have been considered, those jurisdictions have been classified using the same system as was used in NRA2. Under this system they come into one of four categories. These are equivalent jurisdictions (i.e. jurisdictions that are seen as having AML/CFT/CFP controls equivalent to those applied in the Bailiwick), countries that are seen as high risk for money laundering, focus countries (i.e. those that present a terrorism or terrorist financing threat, as described in NRA2), countries that are involved in the proliferation of weapons of mass destruction or are actual or potential

trading etc. hubs for Iran and North Korea), and other, or non-equivalent, jurisdictions (i.e. those that do not come into any of the categories above).

18. The findings set out in this report essentially confirm the findings on legal persons and legal arrangements in NRA1. While findings are set out in this report in relation to specific types of legal person and legal arrangement, it remains the case that the greatest money laundering risk is considered to come from legal persons (primarily Guernsey companies and foreign companies) and legal arrangements (primarily discretionary trusts) that are administered by GFSC licensees and are used in relation to cross border business involving the holding or management of assets. Next in order of significance as regards money laundering are the risks from legal persons and legal arrangements administered by GFSC licensees that are used in other forms of cross-border business primarily supervised Guernsey companies and limited partnerships that are used as or in connection with collective investment schemes, followed by non-administered legal persons and legal arrangements involved in cross-border business, and finally legal persons and legal arrangements with a domestic focus. With regard to terrorist financing, subject to the finding that this is much less likely to occur than money laundering, the greatest risk comes from the use of legal persons involved in cross border activity being used in relation to foreign terrorist activity, followed by legal persons with a domestic focus and all legal arrangements. As regards domestic terrorist activity, all forms of legal person and legal arrangements are considered to be at a very much lower risk of being used for this purpose. The findings for proliferation financing risks are essentially in line with those for the risks of financing foreign terrorist activity.
19. The close correlation between the findings of NRA1 and the findings in this report means that measures that have been put in place by the authorities and the private sector to address the findings of NRA1 in relation to legal persons and legal arrangements remain appropriate.

PART 1: LEGAL PERSONS

1. OVERVIEW

Domestic legal persons

- 1.1 There are five types of legal person that can be incorporated in the Bailiwick. These are Guernsey companies (which may be cellular or non-cellular), Alderney companies, limited partnerships with legal personality, limited liability partnerships, and foundations. The last three of these types of legal person only apply to Guernsey.
- 1.2 There are fewer than 20,000 domestic legal persons. The vast majority of these (just over 18,000) are Guernsey companies. For this reason, this report provides more detail about the risks of Guernsey companies than those of other forms of domestic legal person. However, the number of Guernsey companies is low compared with that in many similar jurisdictions. In addition, it is common for more than one company to be incorporated within the context of a single business relationship (e.g. where different types of assets belonging to the same person are held in separate companies), which means that the number of people using Guernsey for company formation purposes is lower than might be suggested by the total number of companies. The only other domestic legal persons established in any significant number are limited partnerships with legal personality, of which there are 600. The figure for the other forms of domestic legal person is 291 in the case of Alderney companies, 151 for limited liability partnerships and 113 for foundations.
- 1.3 The incorporation of Guernsey companies, limited partnerships with legal personality, limited liability partnerships and foundations is dealt with by making an application to the Guernsey Registry, which maintains a separate register for each type of legal person. The incorporation of Alderney companies is dealt with by making an application to the Alderney Registry.
- 1.4 Applications for the incorporation of Guernsey companies, Alderney companies, limited liability partnerships and foundations may only be made by a TCSP. All legal persons incorporated in the jurisdiction are obliged to maintain and provide to the relevant register basic information, and information about their purpose.
- 1.5 There is also a comprehensive regime in place with regard to beneficial ownership. All legal persons are subject to a resident agent obligation, i.e. an obligation to appoint either a locally resident official or a TCSP as a resident agent with responsibility for

maintaining a record of the beneficial ownership of the legal person within the jurisdiction and for providing it to the authorities. This has been in place for Guernsey companies since 2008, for limited liability partnerships and Alderney companies since 2013, for foundations since 2017 and for limited partnerships since 2023.

- 1.6 Since 2017, the duties of resident agents have included a requirement to provide verified beneficial ownership information and information about nominee relationships to a central beneficial ownership register in Guernsey and Alderney. (A corresponding duty was applied to nominated partners of limited partnerships with legal personality, as at that time they were not subject to the resident agent obligation).
- 1.7 The resident agent obligation is subject to some limited exceptions, namely where a legal person is already subject to transparency measures (these are financial services businesses that are regulated by the GFSC and whose ownership information is therefore retained by the GFSC,⁵ collective investment schemes whose ownership information is held by their licensed administrators and companies listed on recognised stock exchanges) and companies listed on recognised stock exchanges) or where there is no realistic prospect of the legal person being used for money laundering or terrorist financing (i.e. government trading vehicles).
- 1.8 The overall effect of the legal framework outlined above is that there are comprehensive transparency measures in place for all legal persons, both at the incorporation stage and thereafter.
- 1.9 Looking first at incorporation, although the formalities of the incorporation process itself can be carried out very swiftly, the fact that an application can only be made by a TCSP (i.e. somebody subject to the AML/CFT/CFP framework) means that by the time an application is made CDD will already have been carried out. With regard to limited partnerships with legal personality, although the statutory requirement for TCSP involvement at incorporation does not apply to them CDD happens in practice. This is because the vast majority are, or are linked to, collective investment schemes so are administered by a person subject to the AML/CFT/CFP framework.

⁵ The GFSC holds information on the identity of anybody who exercises or controls 5% or more of the voting rights of a financial services business at the outset and on an ongoing basis. Persons holding 15% or more of rights in the business are classified as controllers and are subject to a fit and proper test. There is also a legal requirement to seek the GFSC's prior consent to a change of controllers, and any change in a person holding 5% or more but less than 15% must be notified to the GFSC in writing within 14 days.

- 1.10 Once incorporated, while there is no statutory obligation for a legal person to be administered by a TCSP, in practice the vast majority of legal persons incorporated in the jurisdiction are administered by TCSPs or have to a lesser extent individual AML/CFT/CFP-obliged directors, that is, directors who must comply with the AML/CFT/CFP framework. These individuals are holders of personal fiduciary licences from the GFSC or individuals within the 6-directorship exemption.
- 1.11 The appointment of a TCSP or an AML/CFT/CFP obliged director means that a person independent of the beneficial owner is required to monitor the activity of the legal person and report any suspicious activity to the FIU. The reason most legal persons are administered by a TCSP or AML/CFT/CFP-obliged director is because anybody without a personal connection to the jurisdiction who wishes to establish a legal person in the Bailiwick will only be able to comply with the resident agent obligation in the legal framework by paying either a TCSP or an individual to act as a resident agent (unless the legal person falls within the limited class of exemptions from the resident agent obligation, which in practice are almost all collective investment schemes subject to CDD and other financial services businesses regulated by the GFSC). This means that the only legal persons outside the scope of the AML/CFT/CFP framework post-incorporation are those with a resident agent who is an individual performing that service without remuneration. Unsurprisingly, in practice this generally only applies to legal persons in which resident agents have a personal interest. Typically, this will be because they have established the legal person in order to run their business or to hold their personal assets, in which circumstances CDD is obviously not necessary. It also occurs to a lesser extent where people act as an official for a local NPO whose aims they support, in which case the transparency requirements under the NPO regime apply.
- 1.12 The transparency framework is underpinned by measures to prevent the use of shell companies. Under both Guernsey and Alderney company law, a company will be struck off if the Registrar has reasonable cause to believe that it is not carrying on business or is not in operation.
- 1.13 In addition, under the beneficial ownership legislation in both Guernsey and Alderney, a legal person cannot be incorporated if its constitutional documents enable it to issue bearer shares, bearer warrants or other bearer securities.
- 1.14 In terms of their oversight or administration, legal persons may be supervised by the GFSC, administered by a licensee, or non-licensee administered. Legal persons administered by a licensee are those where a person licensed by the GFSC (e.g. a TCSP) is involved in the administration of the legal person in some way. A non-licensee

administered legal person is one which is neither supervised by the GFSC nor administered by a person licensed by the GFSC, because its administrator is not remunerated. This typically arises where the administrator has a personal interest in the legal person in order to run their business or hold personal assets.

- 1.15 A risk factor included in the analysis of legal persons is the length of time for which they have been established. While it is recognised that a legal person's links to criminality may go undetected, the fact that a legal person has been in existence for a considerable period of time without giving rise to any concerns is nevertheless a relevant factor when assessing the likelihood that it may be used for criminal purposes.
- 1.16 Given the Bailiwick's position as an IFC with a low domestic crime rate, the links that its legal persons have with other jurisdictions and the extent to which these links involve high risk factors are clearly also key to assessing the risks of these legal persons. Therefore, the assessment below of each type of legal person includes analysis of linked parties and the jurisdictions to which they are connected. Linked parties for these purposes are natural or legal persons that feature in the management or ownership of a legal person.
- 1.17 For the same reason, assets (real property, or tangible assets with a value of over £5 million), purposes or activities and subsidiaries of certain types of legal persons, together with the jurisdictions with which they are connected, are also included in the analysis.
- 1.18 It is however recognised that the absence of any identified link to any jurisdiction of concern does not mean that these links do not exist. This is particularly the case where the link is to another financial centre that is acting as an entrepot whose own links to other jurisdictions will not be obvious. Furthermore, as identified in NRA2, the Bailiwick is often a long way down a chain of transactions so any links between the use of legal persons and criminality may be hard to detect. Risk ratings have therefore been assigned with this caveat in mind.

Foreign Legal Persons

- 1.19 Because of the Bailiwick's position as an IFC, the involvement of foreign legal persons in business relationships within the jurisdiction is common. This primarily involves foreign companies, although other forms of legal person also feature to a lesser

extent, and they often feature as part of a complex structure involving other forms of entities.

- 1.20 Foreign legal persons with a link to the Bailiwick will invariably be linked to a TCSP or other party that is subject to the AML/CFT/CFP framework. The competence requirements of the prudential regulatory framework applicable to TCSPs include an obligation for TCSPs in this position to familiarise themselves with the applicable law of the jurisdiction in which the legal person was formed. This is in addition to their obligation to carry out CDD under the AML/CFT/CFP framework. The administration of a foreign legal person is typically carried out by a TCSP in the context of a business relationship in which the TCSP provides the full suite of trust and corporate services in relation to every legal entity involved in the business relationship so as to ensure they are in control of the management and distribution of assets.
- 1.21 If a foreign legal person has a business relationship in the jurisdiction without the involvement of a TCSP the AML/CFT/CFP framework will still apply, because in those circumstances, in order to carry out a transaction such as invest into an authorised or registered collective investment scheme the scheme's GFSC licensed administrator is obligated to apply AML/CFT/CFP measure to the legal person.

2. GUERNSEY COMPANIES (NON-CELLULAR)

Structure

- 2.1 The control of a Guernsey company lies with its directors, whose identity is recorded on a public central register, and ownership is by members whose names and addresses are recorded in a register that must be kept at a registered address in Guernsey and made available for inspection on demand. Details of any member with a shareholding of more than 25%, or any other member or third-party exercising control over the company in some other way, are recorded on a register of beneficial ownership.
- 2.2 The liability of the members of the company depends on the company type and can be limited (by shares or by guarantee), unlimited, or mixed. Where a company is a limited company, the members of the company have limited liability, which means that a member will only be liable for the company's debts up to the amount unpaid on shares they hold (in the case of a company limited by shares), or up to the amount they have agreed to contribute to the company's assets if it is wound up (in the case of a company limited by guarantee). An unlimited company shall have members whose liability for the company's debts is unlimited while they are members, or within a period of one year after they cease to be members. A mixed liability company may have a mix of all the following member types: members guaranteeing the company's liabilities to an agreed amount, members with unlimited liability for the company's debts and shareholders (where the company has a share capital).

Company classifications

- 2.3 Guernsey companies are categorised by the Guernsey Registry as follows –
- Category 1: primary GFSC licensees (i.e. financial services businesses)
 - Category 2: secondary GFSC licensees (i.e. companies created through which to provide financial services)⁶
 - Category 3: cellular companies
 - Category 4: charities and NPOs
 - Category 5: TCSP administered companies
 - Category 6: Non-licensed companies (i.e. not TCSP administered)
 - Category 7: companies regulated by GCRA (i.e. companies providing services related to utilities or telecommunications services).

⁶ In practice these are primarily secondary fiduciary licensees, licensed insurers and collective investment schemes.

2.4 This classification system is therefore used in the statistics set out below (save in relation to cellular companies, which are looked at in the next section). This presents a comprehensive picture of the risk factors applicable across the full range of non-cellular companies. However, for the purposes of assigning risk ratings at the end of this section, they have been broken down into three principal groups. The first is companies supervised by the GFSC (broadly speaking, Category 1 and 2 companies), companies that are administered by a GFSC licensee (broadly speaking, Category 5 companies) and companies that are non -licensee administered (broadly speaking, Category 6 companies). There is inevitably a degree of overlap between the groups, and Category 4 and Category 7 companies will feature within them to some extent. However, it is not considered necessary to give separate consideration to Category 4 and Category 7 companies. In the case of Category 4 companies, this is because the risks of charities and NPOs are addressed in the report on NRA2. In the case of Category 7 companies, this is because the number of GCRA regulated companies is very low (6 in total) and their extremely specific functions make it unlikely that they would be chosen as vehicles for criminal activity.

Number and profile

2.5 There are 17,090 non-cellular companies registered with the Guernsey Registry. The table below demonstrates the breakdown of these companies in terms of the liability of their members and by supervision, i.e. whether they are supervised by the GFSC, administered by a person licensed by the GFSC, or are non -licensee administered.

Legal Person types – Non-Cellular Company	Supervised	Administered by Non-Licensee Licensee	Administered	Total
<i>Company limited by shares</i>	1,689	10,521	4,590	16,800
<i>Company limited by guarantee</i>	1	63	212	276
<i>Unlimited Liability Company</i>	1	12	1	14
<i>Mixed Liability Company</i>	-	-	-	-
TOTAL	1,691	10,596	4,803	17,090

2.6 The vast majority of non -cellular companies (98%) are limited by shares. None are of mixed liability. Only 276 companies are limited by guarantee, and only 14 are of unlimited liability.

2.7 Consideration has been given to the risks of each of these types of company. However, the nature of the liability of members does not affect transparency issues or the application of mitigating measures. Therefore, the nature of the liability of members is not considered to have any impact on risk, which is instead determined on the basis

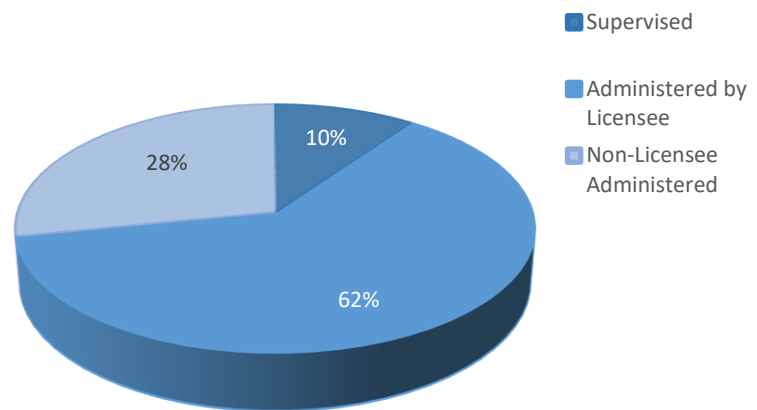
of factors such as the purposes for which they are created, the profile of the parties linked to them and materiality.

- 2.8 As the most common type of company, the risks of limited liability companies are those set out below in relation to all the different types of company that are described.
- 2.9 Approximately 75% of the 276 companies limited by guarantee are charities or other NPOs and are therefore subject to the risks of the NPO sector described in NRA2. The remainder are linked to investment so are subject to the risks of the investment sector described in NRA2.
- 2.10 The 14 companies of unlimited liability are used for a mix of local and foreign business activity in a range of sectors such as food production, agricultural and intellectual property, as holding companies or, in one case, as a captive insurance company. Because of their nil or negligible links to high-risk sectors or countries that are high risk, focus countries or PF hubs (see below) they are not considered to have any significant exposure to criminality, but as with GCRA companies it is not considered necessary to give them a specific risk rating given the very low number involved.
- 2.11 A very high proportion of all non-cellular companies are administered by a GFSC licensee. This reflects the fact that limited companies are used extensively within the TCSP sector as personal asset holding vehicles for predominantly non-Bailiwick resident customers, principally holding investment portfolios and foreign real estate where the asset values are usually high. TCSPs typically provide the full suite of corporate services to an administered company covering provision of directors, nominee shareholders, company secretarial and administration, registered office and resident agent. Therefore there is a high incidence of the registered shareholder/s of a GFSC licensee administered company being a licensed nominee company provided by the TCSP. Non-cellular companies administered by GFSC licensees are also used in connection with life insurance and pensions.
- 2.12 While some of these are stand-alone companies that are not linked to any other entity, most are part of wider business relationships that involve other legal persons (whether domestic or foreign) or to the provision of trust services. However, the ownership patterns in these business relationships are generally relatively simple, with TCSPs providing the full suite of services to all entities within the relationship. More complex ownership patterns are typically only created for the purposes of joint ventures, not asset holding. The connection to trusts for asset holding purposes primarily arises where companies are established to hold trust assets, but also applies

to some extent where PTCs are established to act as corporate trustees for family trusts. In addition, these two situations will overlap in cases where a trust with assets held in companies has a private trust company as trustee. See the section below on legal arrangements for further analysis of the relationship between companies and trusts.

- 2.13 This relationship means that it would be artificial to assess the vulnerability of these companies in isolation, and this would not take into account the possible impact on transparency from the extra layer of ownership that the relationship creates. Just over a quarter of administered Guernsey companies are owned by a trust. However, at least two thirds of them have a TCSP as the trustee so in these cases, the extra layer of ownership does not make any difference in practice from a transparency perspective (see the point above about TCSPs providing the full suite of services to all entities in a business relationship). Some 13% of companies owned by a trust have a non-Bailiwick corporate trustee. This is likely to mean that the TCSP acting as the resident agent of the company relies on that non-Bailiwick corporate trustee for beneficial ownership information on the underlying trust. While this reliance may increase the vulnerability of the company to money laundering, it is being mitigated by the requirement in the AML/CFT/CFP framework for specified businesses (including TCSPs as resident agents) to apply enhanced measures to customers which are personal asset holding vehicles.
- 2.14 Some 10% of non-cellular companies are supervised by the GFSC. This is either because they are collective investment schemes, or because they are financial services businesses (insurance, banking, investment, TCSPs etc.) or companies established by those businesses through which to provide their services. Those that are collective investment schemes are subject to the vulnerabilities of investment schemes to money laundering, terrorist financing and proliferation financing described in NRA2. Those that are established as financial services businesses or for the purposes of providing financial services businesses are unlikely vehicles for money laundering, terrorist financing or proliferation financing, as anybody seeking to create a company for these purposes would first have to satisfy fit and proper checks by the GFSC and then remain subject to its ongoing oversight.

Figure 1: Overview of non-cellular companies by supervision



- 2.15 The remaining non-cellular companies are broadly speaking those where between them the directors, shareholders, and beneficial owners are one and the same. These companies are incorporated for a range of purposes, primarily including holding assets and running local businesses or philanthropic activity carried out by NPOs (which for these purposes includes recreational activity such as sports and music). These companies therefore have limited exposure to cross-border activity, although a small proportion have links to the UK.
- 2.16 As would be expected given the high proportion of non-cellular companies that are administered by a GFSC licensee, the majority have resident agents that are TCSPs. Less than 10% of non-cellular companies are exempt from the obligation to have a resident agent. For over half of resident agent exempt companies, the reason for the exemption is that they are supervised by the GFSC which will hold beneficial ownership information. The remaining resident agent exempt companies divide more or less evenly between those that are investment schemes and those that are listed on a stock exchange, apart from one that is a government trading company.

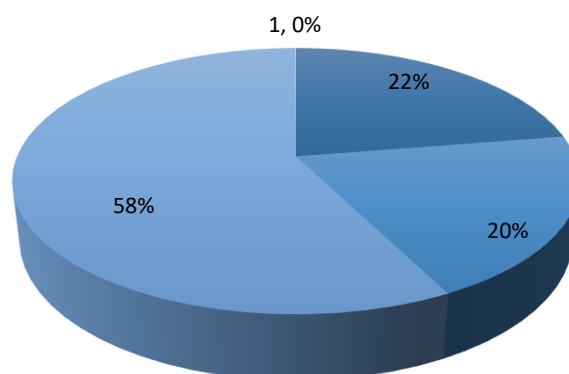


Figure 2: Overview of resident agent exemptions across non-cellular companies⁷

- Open or Closed Ended Investment Scheme
- Stock Exchange Listed
- GFSC Supervised Company
- States Trading Company

Length of time incorporated

2.17 Over 70% of non-cellular companies have been incorporated for more than 5 years, with nearly 50% having been incorporated for more than 10 years.

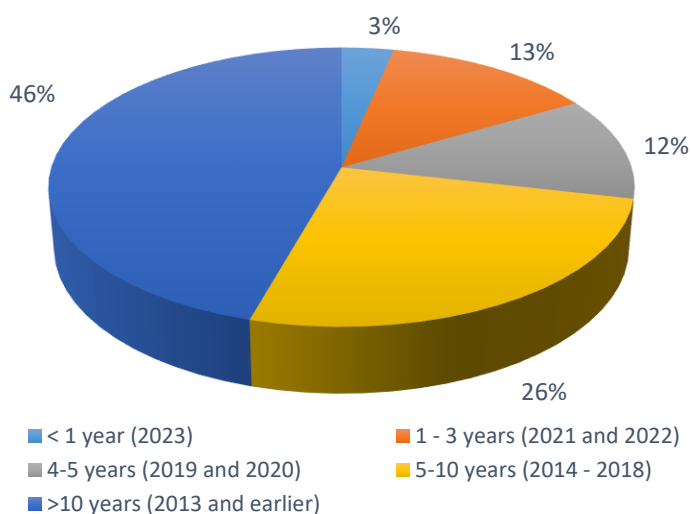


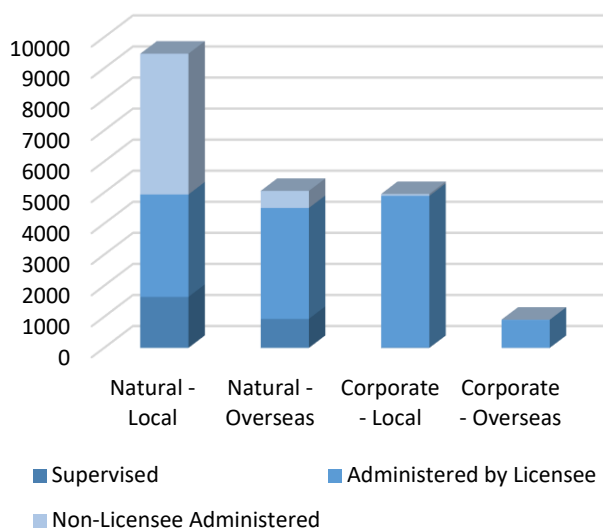
Figure 3: Overview of non-cellular company age according to date of incorporation

Linked parties – nature/location

2.18 70% of directors of companies limited by shares are natural persons, and the same proportion applies to directors who are located in the Bailiwick. The position is similar with regard to companies limited by guarantee. For unlimited liability companies the proportion of local directors is much smaller (20%), but this is not statistically significant given that there are only 14 unlimited liability companies in total. The following graph demonstrates the position with regard to companies limited by shares.

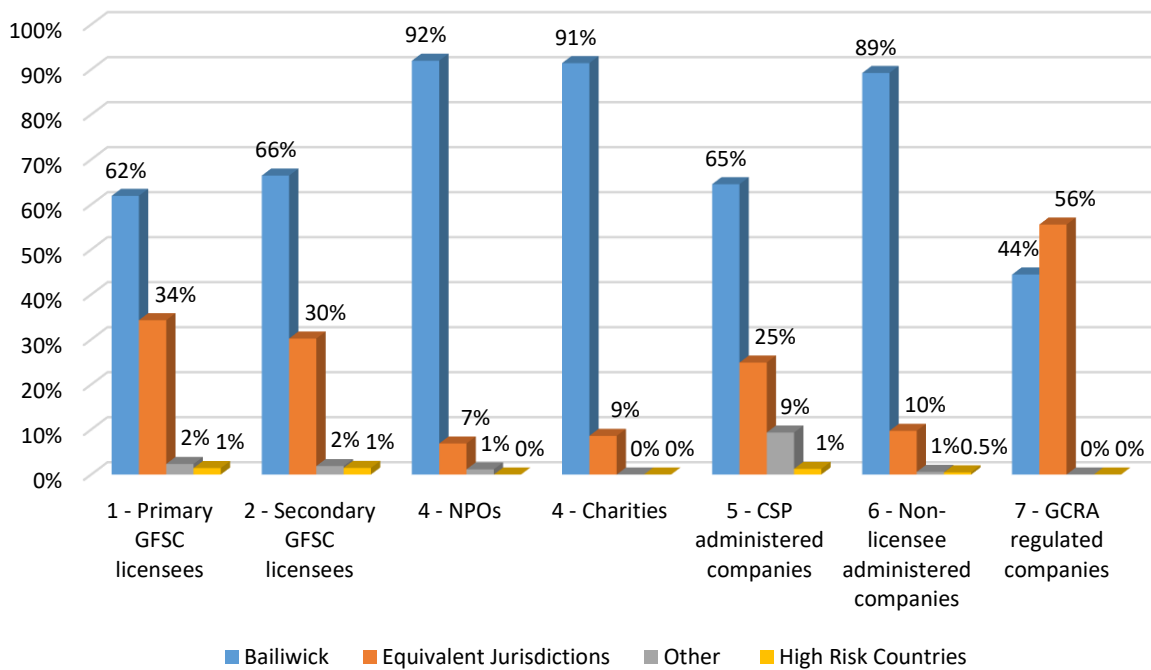
⁷ Although shown as 0%, it should be noted that one company is resident agent exempt and applying the States Trading Company exemption

Figure 4: Non-cellular companies limited by shares - director types and supervision profile



2.19 As can be seen, the majority of all directors of non-cellular companies, whether natural persons or corporate directors, are located in the Bailiwick. Further analysis shows that where they are located outside the Bailiwick, this is primarily in equivalent jurisdictions, with a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions. It also shows that boards of directors of supervised companies are comprised entirely of natural persons, who regardless of their geographic location have been vetted for the roles by the GFSC. As the chart shows, local corporate directors are used exclusively on approximately 5,000 GFSC licensee administered non cellular companies. Use of a corporate director is regarded in certain quarters as raising the risk of misuse because it can obfuscate who is controlling the legal person, but this risk is mitigated by the requirement for corporate directors to be licensed by the GFSC and therefore subject to AML/CFT/CFP obligations and supervision. Furthermore, licensed corporate directors will be companies in the ownership and control of the licensed administrator. Only GFSC licensee administered companies have overseas corporate directors which reduces this risk of misuse as they are obligated to apply CDD and monitor the company's activities. There are no local or overseas corporate directors on non-licensee administered companies.

Figure 5: Company Categories: natural and corporate directors - locations



2.20 Analysis also shows that the number and proportion of non-cellular companies with overseas directors that are located in TF focus countries or countries that are proliferation hubs is nil or negligible.

Figure 6: Company categories: natural and corporate directors - connections to TF focus countries

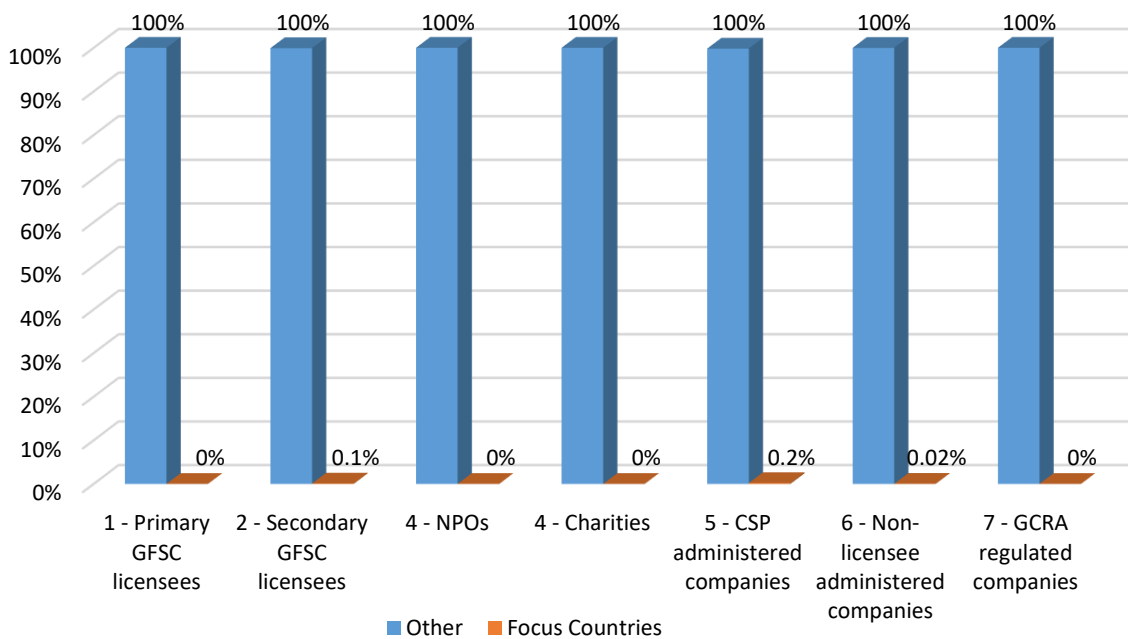
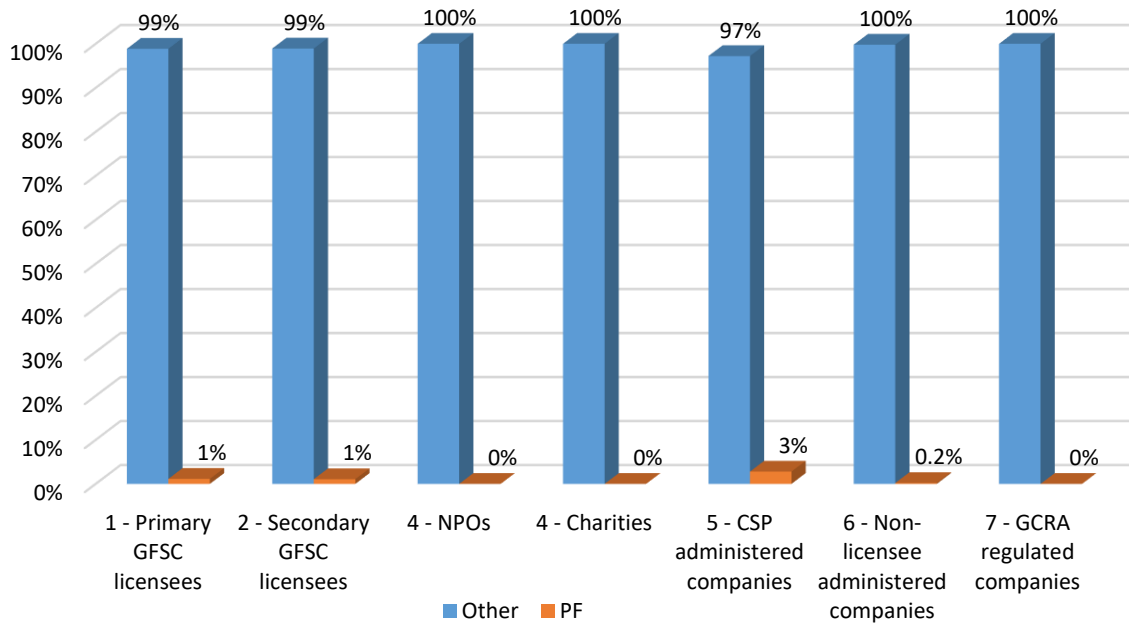


Figure 7: Company categories: natural and corporate directors - connections to PF hubs



2.21 The same patterns appear if the directors of non-cellular companies are looked at by type rather than by classification category.

Figure 8: Non-cellular companies: natural and corporate directors - locations

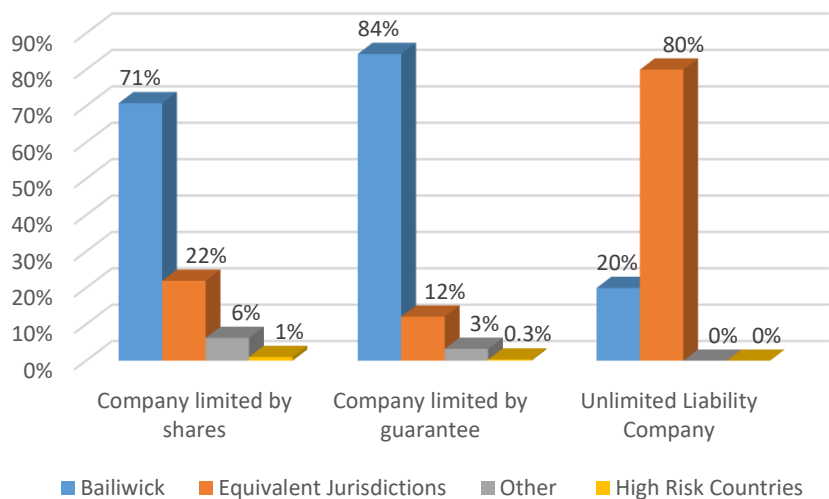


Figure 9: Non-cellular companies: natural and corporate directors - connections to TF focus countries

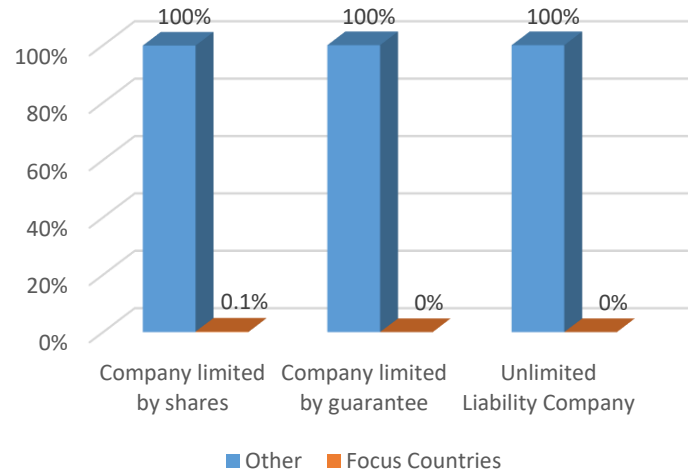
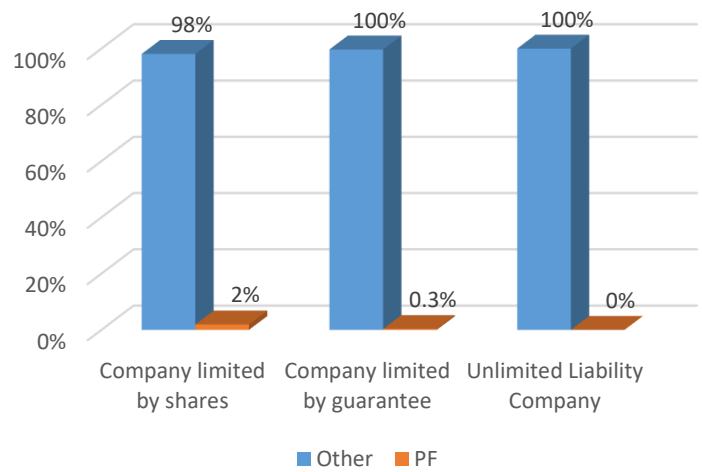


Figure 10: Non-cellular companies: natural and corporate directors - connections to PF Hubs



2.22 Overall, 69% of beneficial owners on the register in relation to non-cellular companies are natural persons, though the proportion is higher within companies limited by guarantee and unlimited liability companies.

Figure 11: Non-cellular companies: distribution of beneficial owner types

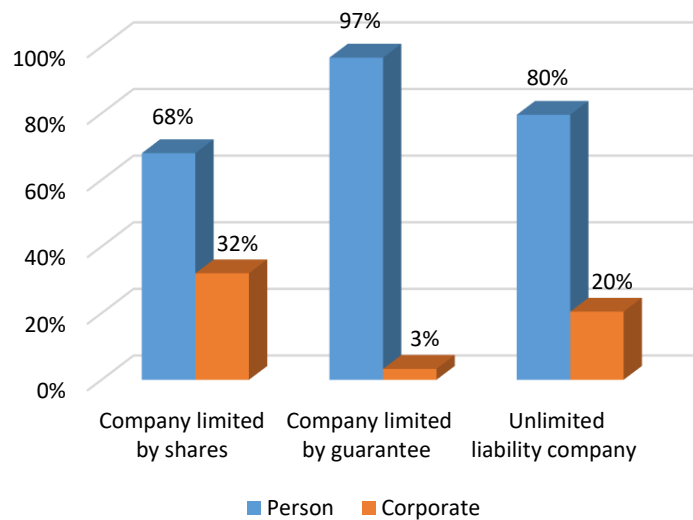
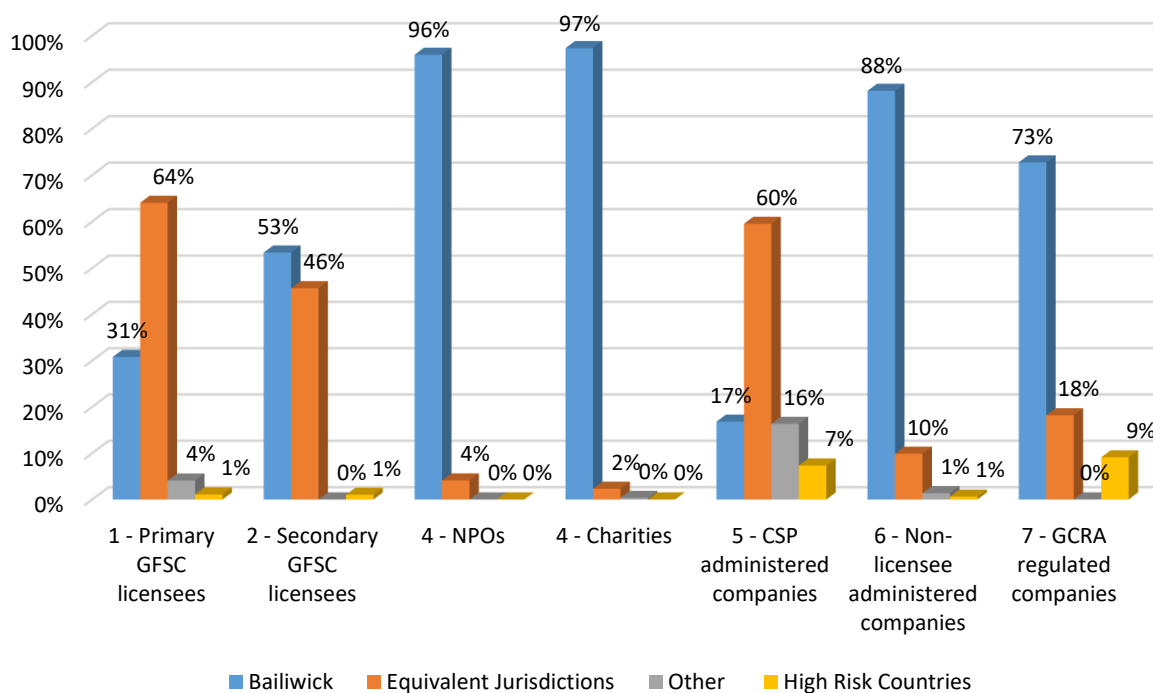


Figure 12: Company categories: natural person beneficial owners - locations



2.23 Where natural person beneficial owners are located outside the Bailiwick, this is primarily in equivalent jurisdictions, with a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions. In respect of primary and secondary GFSC licensees the geographic profile of natural person beneficial owners represents the predominantly Guernsey, UK, US and European ownership profile of financial institutions and DNFBPs. The beneficial ownership profile of CSP administered companies is reflective of the client base for the TCSP sector. The beneficial owners of the vast majority of non-licensed administered companies are Bailiwick resident.

2.24 Further analysis shows that the number and proportion of natural person beneficial owners that are located in TF focus countries or countries that are proliferation hubs is ranges from very low to negligible or nil.

Figure 13: Company categories: natural person beneficial owners - connections to TF focus countries

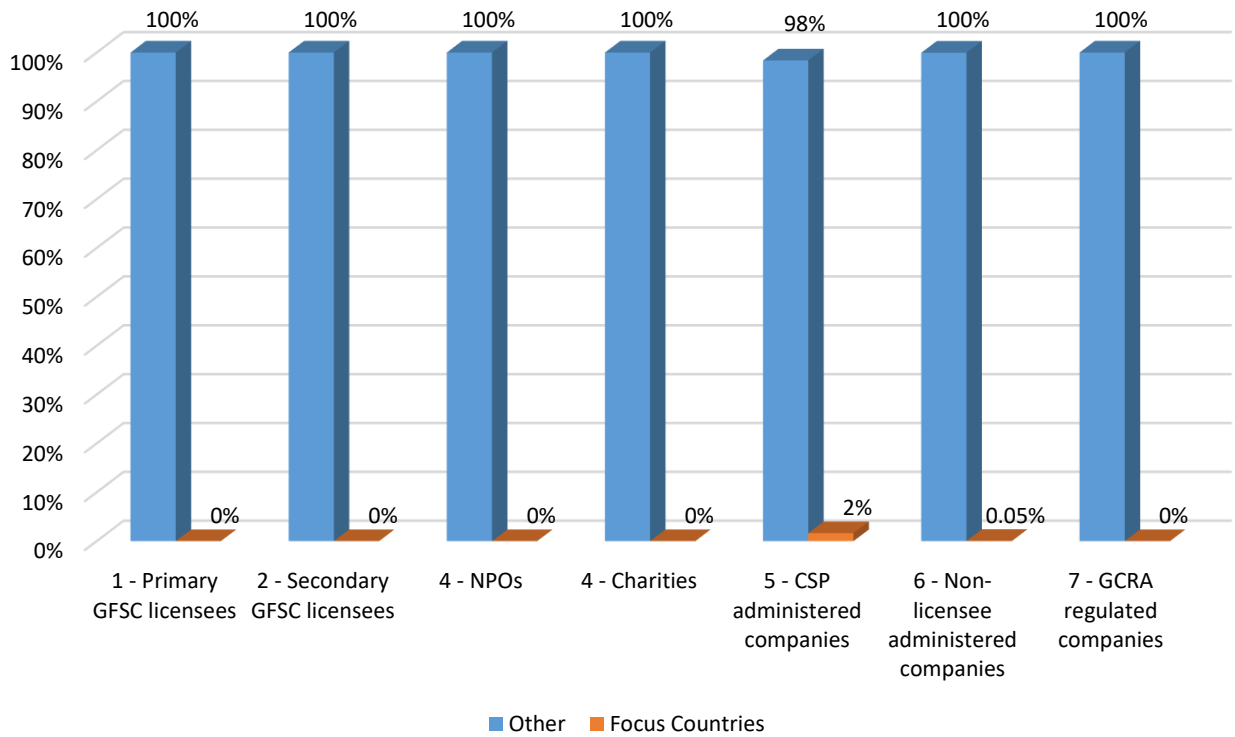
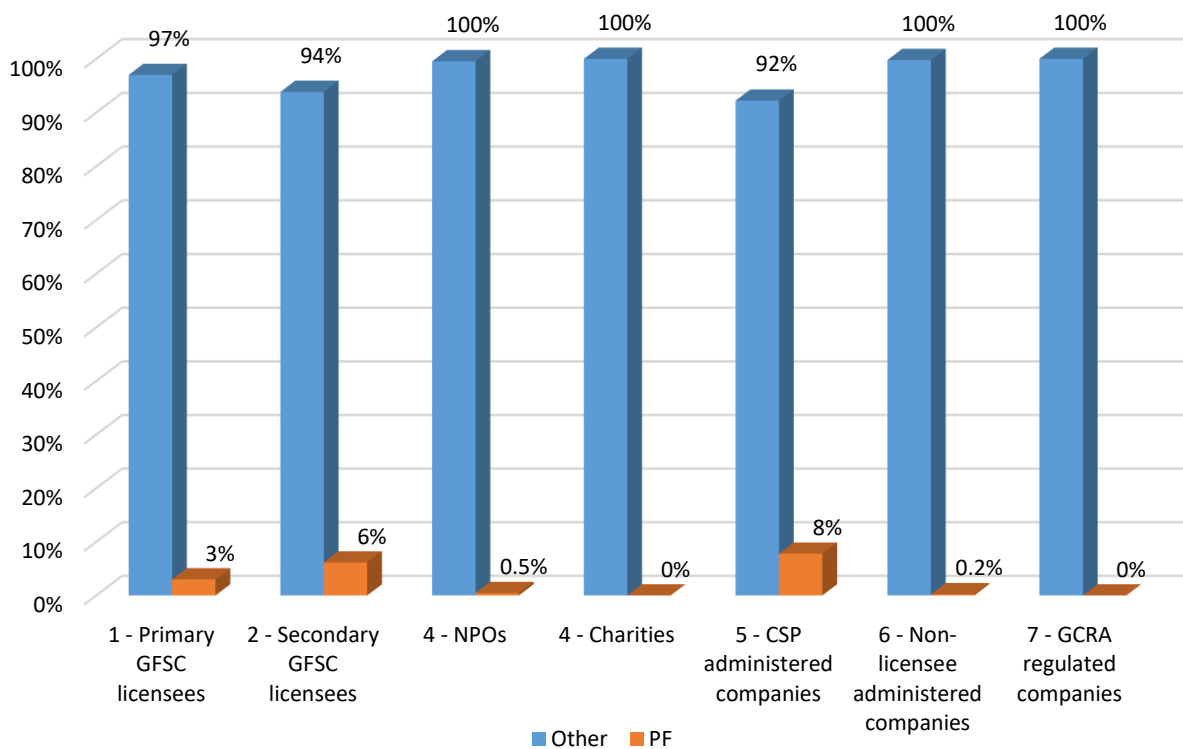


Figure 14: Company categories: natural person beneficial owners - connections to PF hubs



2.25 The same patterns appear if the natural person beneficial owners of non-cellular companies are looked at by type rather than by classification category.

Figure 15: Non-cellular companies: natural person beneficial owners - locations

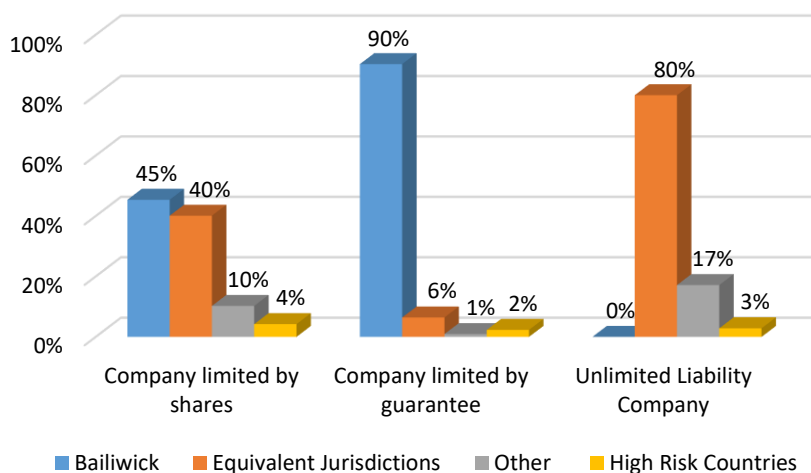


Figure 16: Non-cellular companies: natural person beneficial owners - connections to TF focus countries

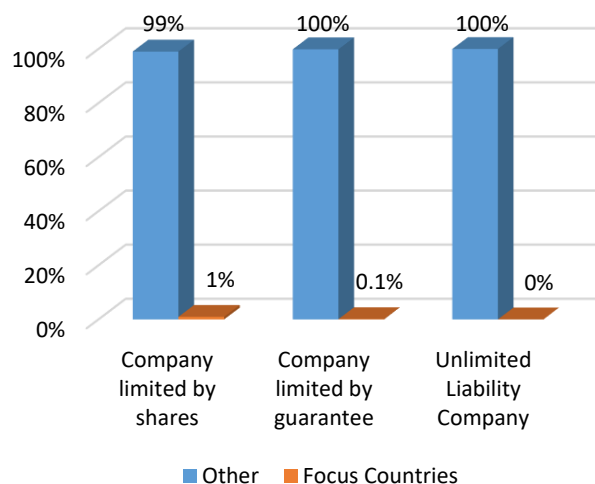
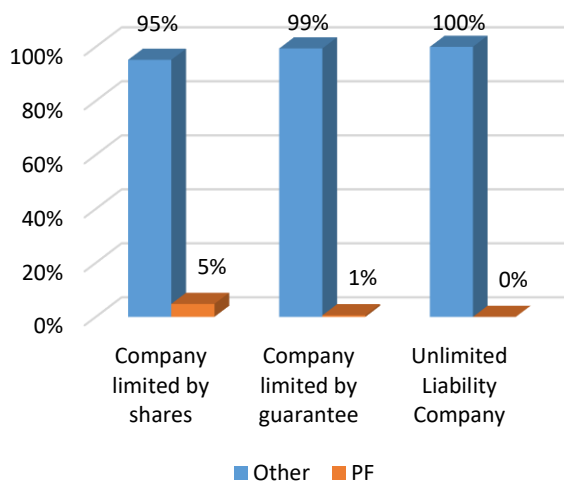
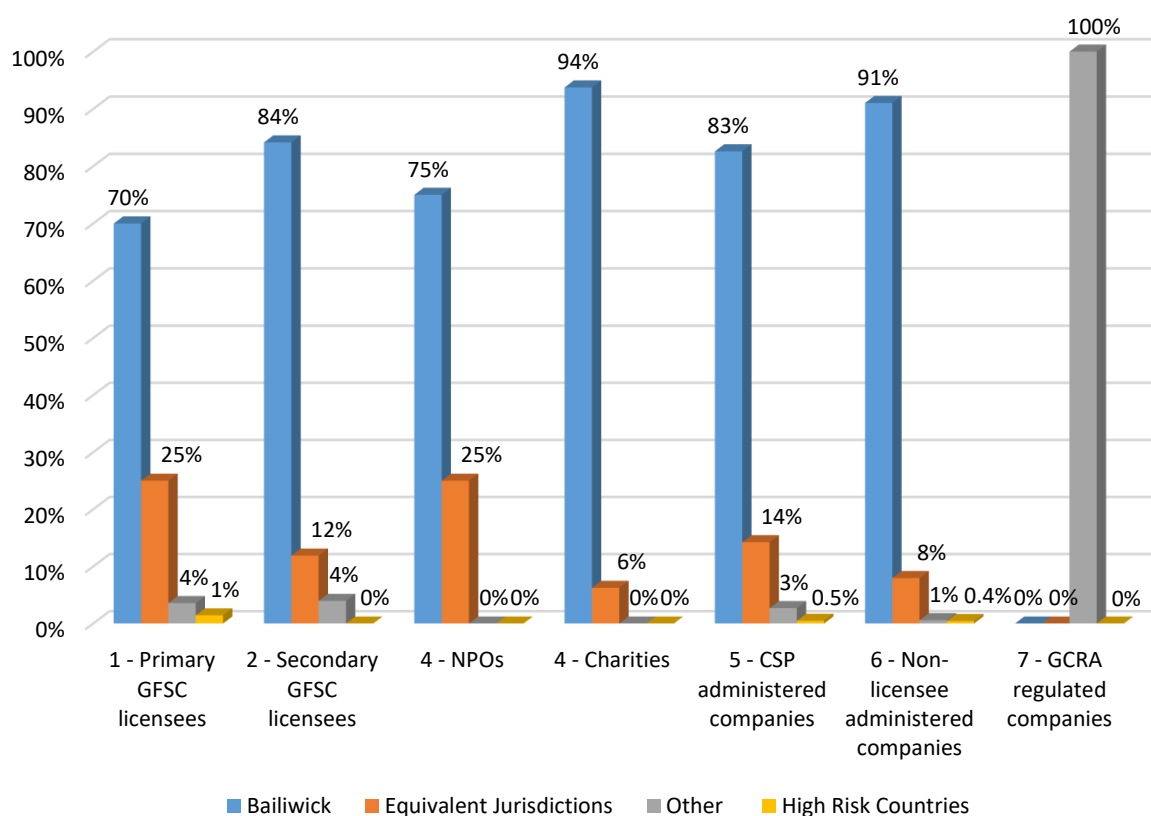


Figure 17: Non-cellular companies: natural person beneficial owners - connections to PF hubs



2.26 For the 31% of non-cellular companies that have corporate beneficial owners, almost half have beneficial owners that are corporate trustees licensed by the GFSC, just over a third have beneficial owners that are legal persons listed on the register (and whose beneficial ownership information is therefore already available), and the remainder have a Guernsey listed company or a foreign listed company as a beneficial owner (apart from one case where the beneficial owner is a government trading company). Therefore, the vast majority (83%) of these corporate beneficial owners are located in the Bailiwick. Where they are located overseas, this is primarily in equivalent jurisdictions, with a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions but are listed on stock exchanges with disclosure requirements.

Figure 18: Company categories: corporate beneficial owners - locations



2.27 Further analysis shows that the number and proportion of corporate beneficial owners that are located in TF focus countries or countries that are proliferation hubs is nil or negligible.

Figure 19: Company categories: corporate beneficial owners - connections to TF focus countries

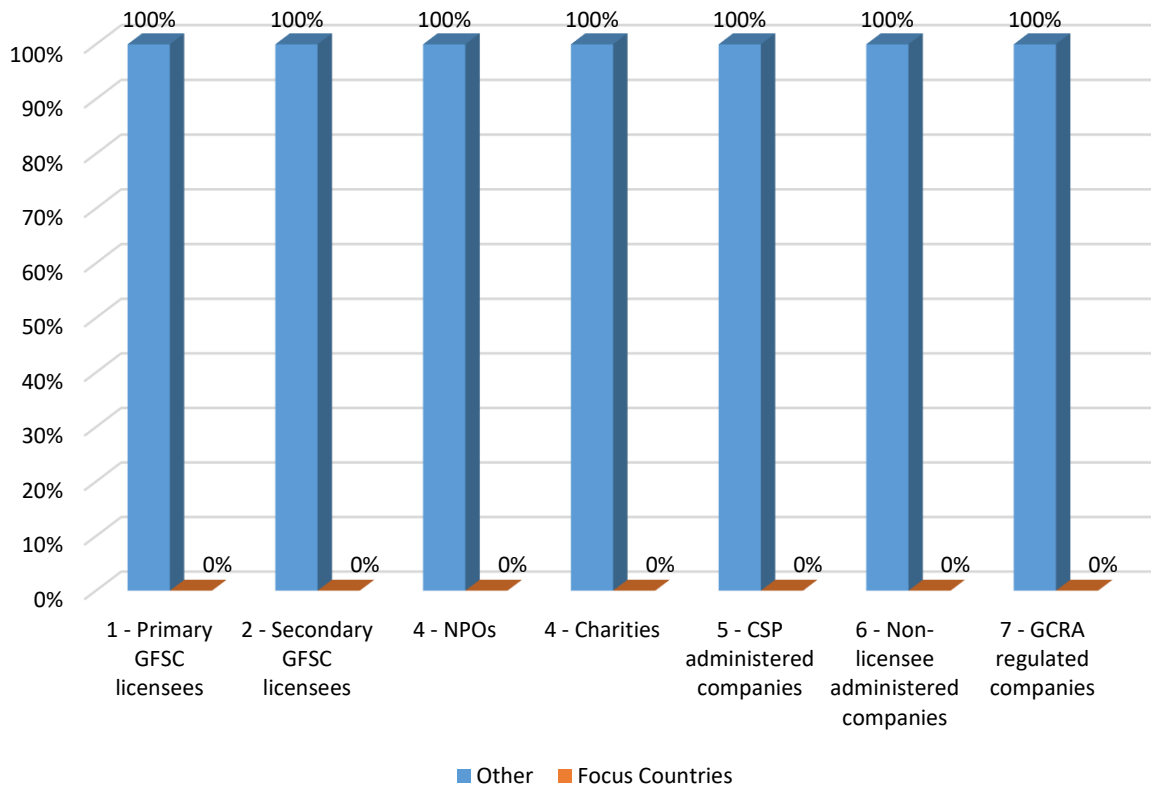
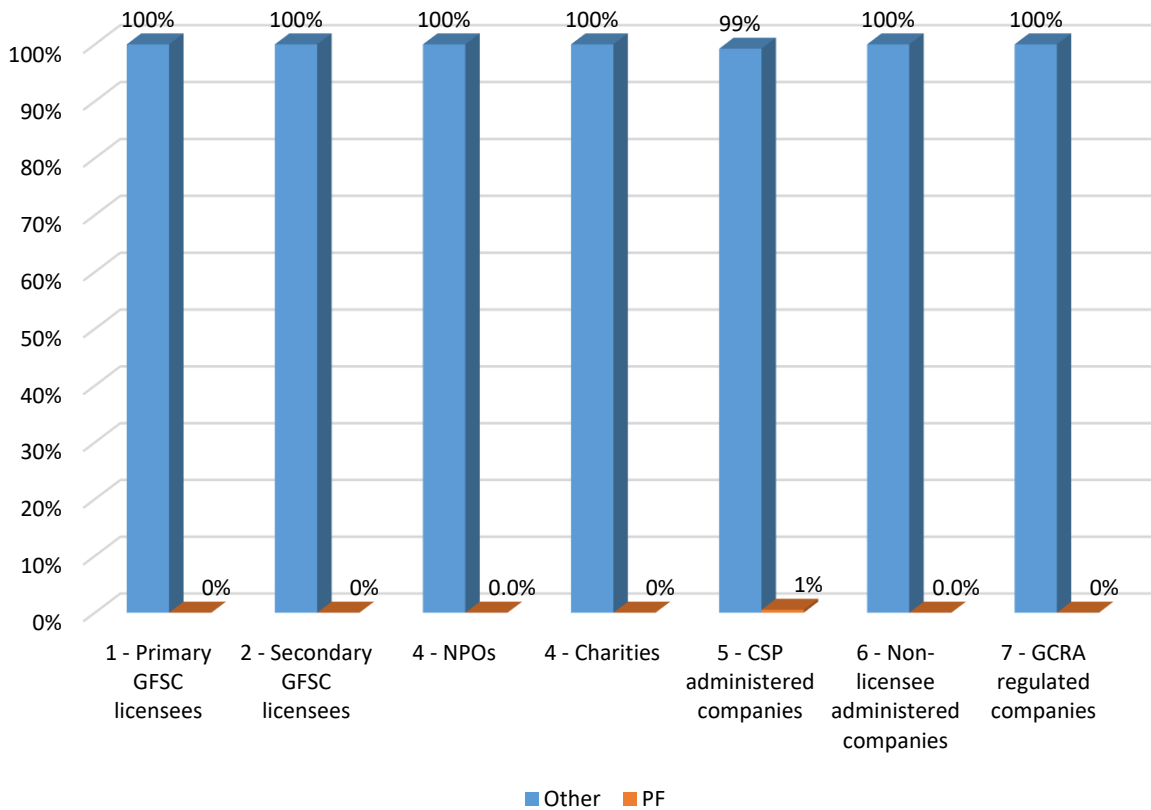


Figure 20: Company categories: corporate beneficial owners - connections to PF hubs



2.28 The same patterns appear if the corporate beneficial owners of non-cellular companies are looked at by type rather than by classification category.

Figure 21: Non-cellular categories: corporate beneficial owners - locations

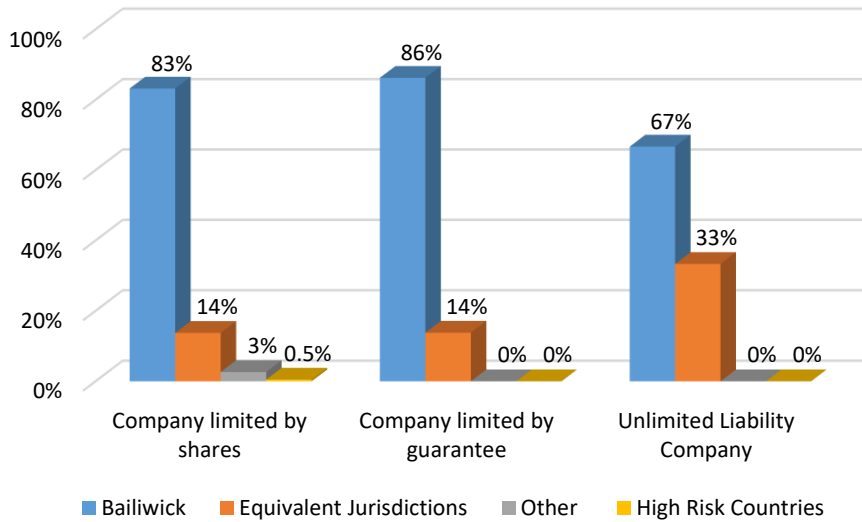


Figure 22: Non-cellular categories: corporate person beneficial owners - connections to TF focus countries

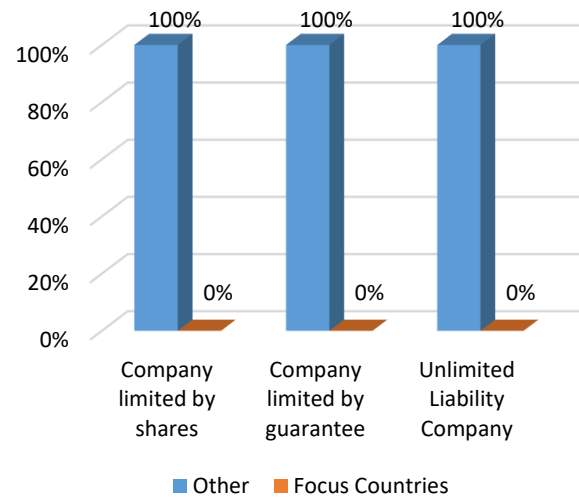
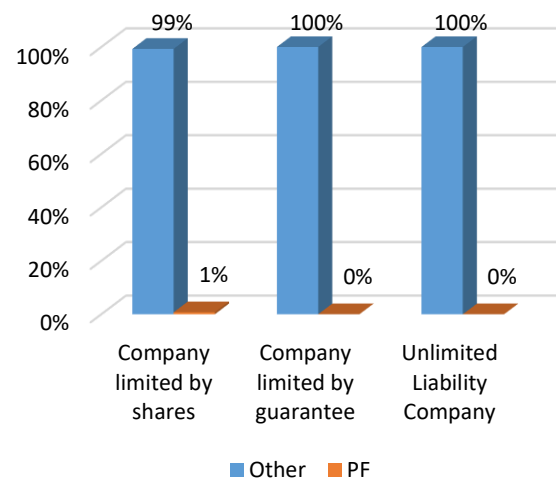


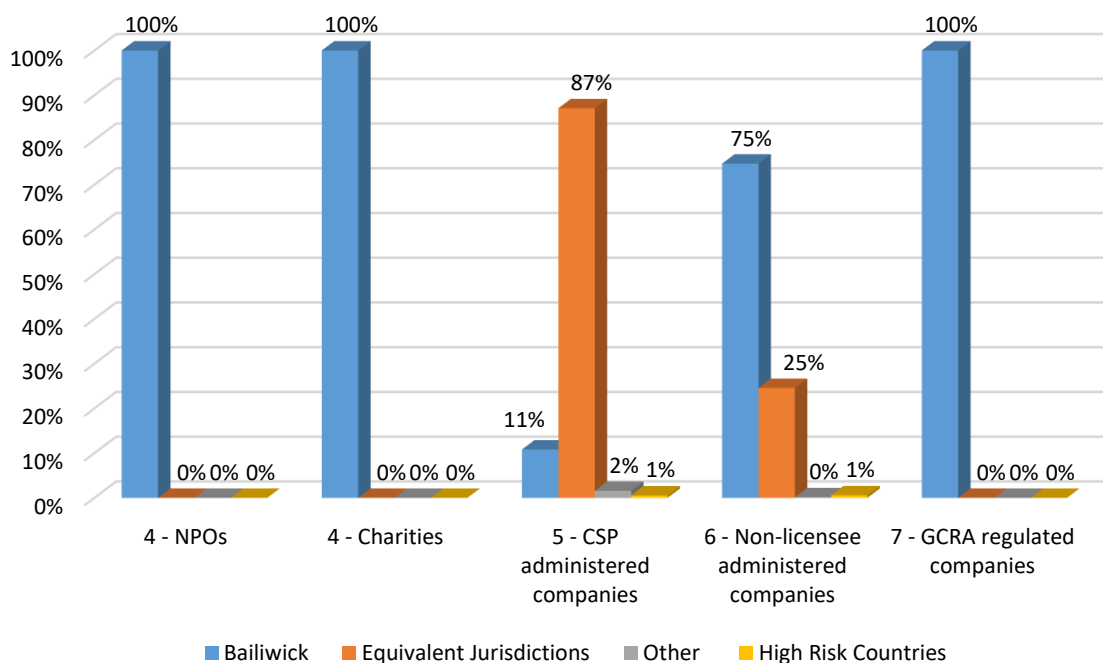
Figure 23: Non-cellular categories: corporate person beneficial owners - connections to PF hubs



Assets

2.29 Analysis has been carried out in respect of real property held by both non-cellular companies administered by a GFSC licensee and non-cellular companies that are not licensee administered. The number of non-licensee administered companies holding real property is much lower than that of licensee administered companies. Furthermore, the real property held by non-licensee administered companies is principally within the Bailiwick. Where real property is held outside the Bailiwick, this is almost entirely within equivalent jurisdictions (primarily the UK), with a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions.

Figure 24: Company categories: property and land assets - location



2.30 Further analysis shows that the number and proportion of non-cellular companies with real property located in focus countries or countries that are proliferation hubs is nil or negligible. Where real property is located outside the Bailiwick, this is primarily in equivalent jurisdictions, with a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions.

Figure 25: Company categories: property and land assets - connections to TF focus countries

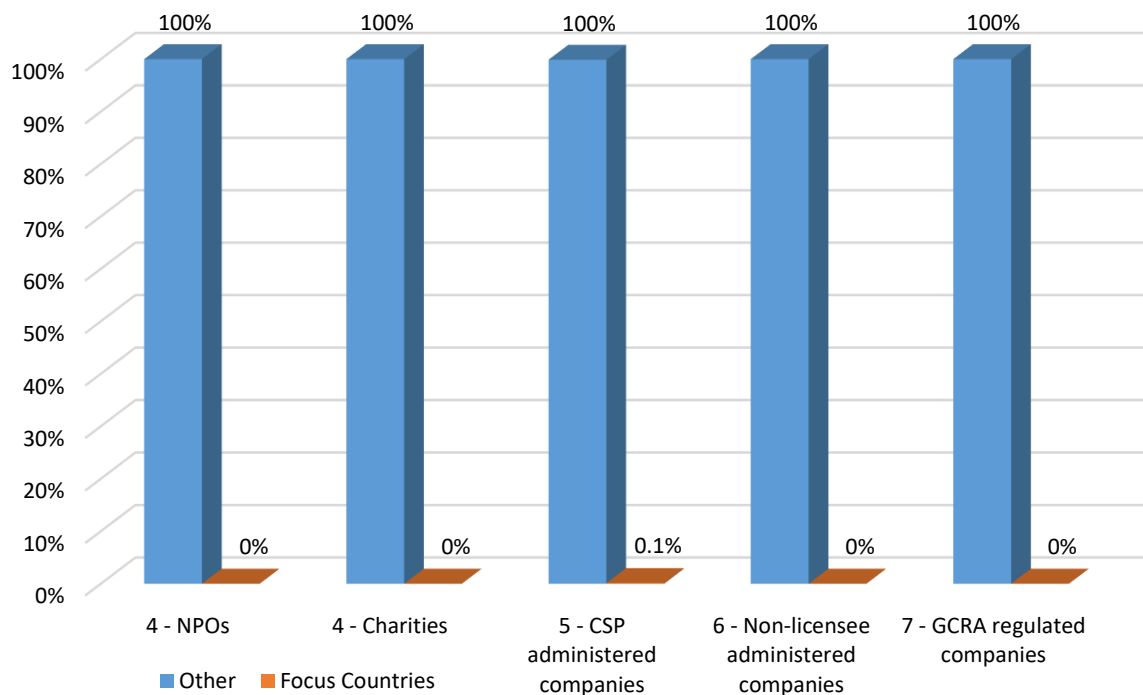
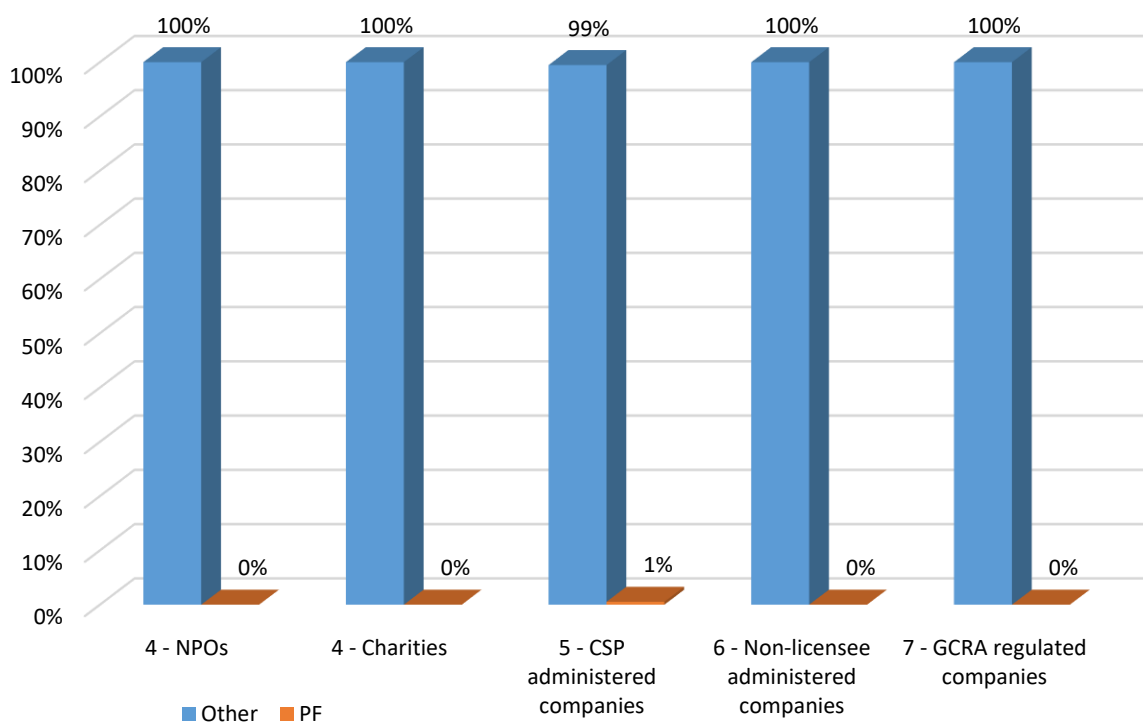


Figure 26: Company categories: property and land assets - connections to PF hubs



2.31 The same patterns appear if the real property holdings of non-cellular companies are looked at by type rather than by classification category.

Figure 27: Company categories: property and land assets - location

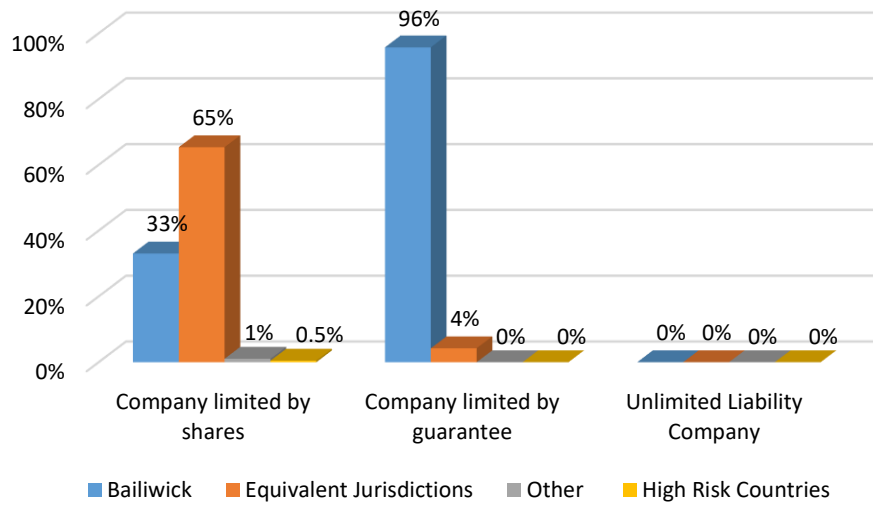


Figure 28: Company categories: property and land assets - connections to TF focus countries

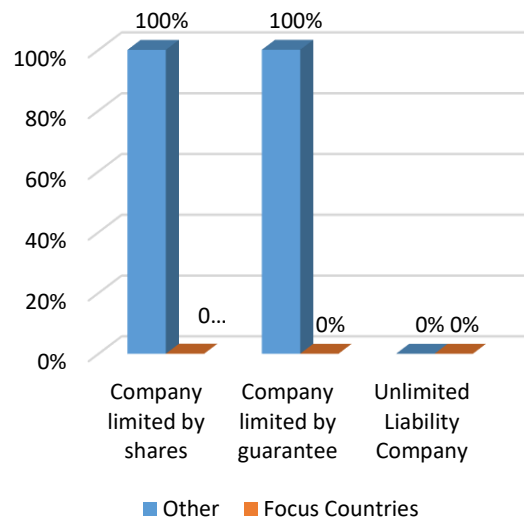
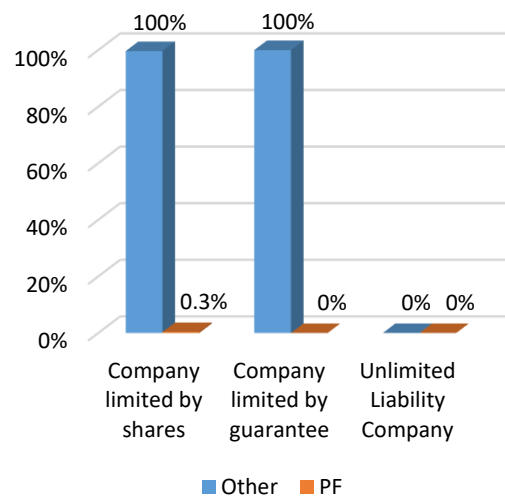
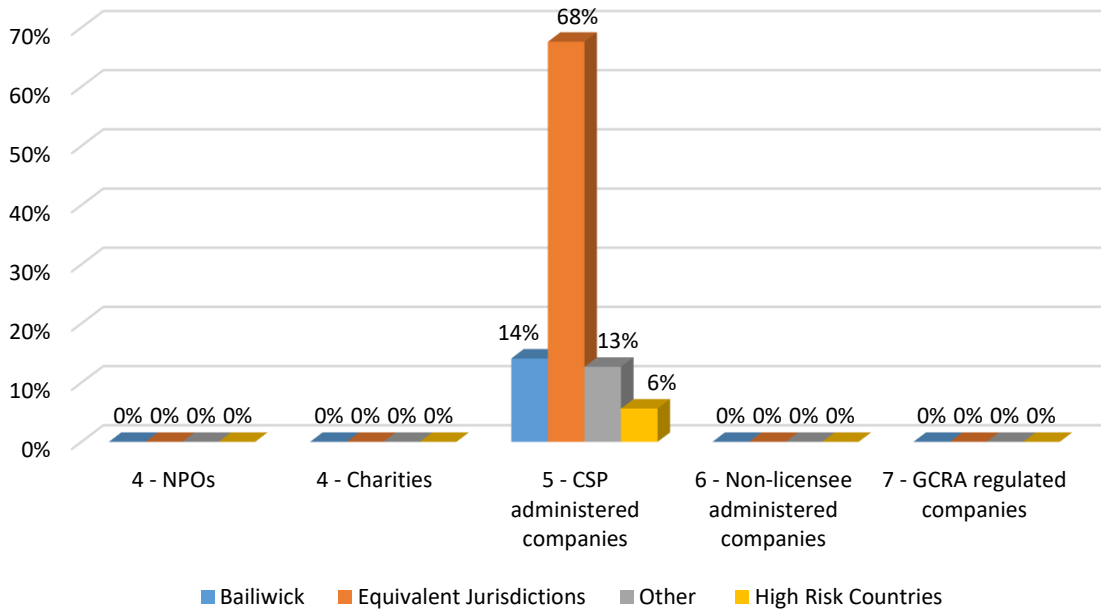


Figure 29: Company categories: property and land assets - connections to PF hubs



2.32 71 high value tangible assets (i.e. assets other than real property with a value of £5 million or above) are held by non-cellular companies that are administered by a GFSC licensee. No such assets are held by non-licensee administered companies.

Figure 30: Company categories: high value assets - location



2.33 As can be seen, where these assets are located outside the Bailiwick this is primarily in equivalent jurisdictions, with a small proportion in non-equivalent jurisdictions or high-risk jurisdictions. Further analysis shows that the number and proportion of non-cellular companies with high value tangible assets located in focus countries or countries that are proliferation hubs is nil or negligible.

Figure 31: Company categories: high value assets - connections to TF focus countries

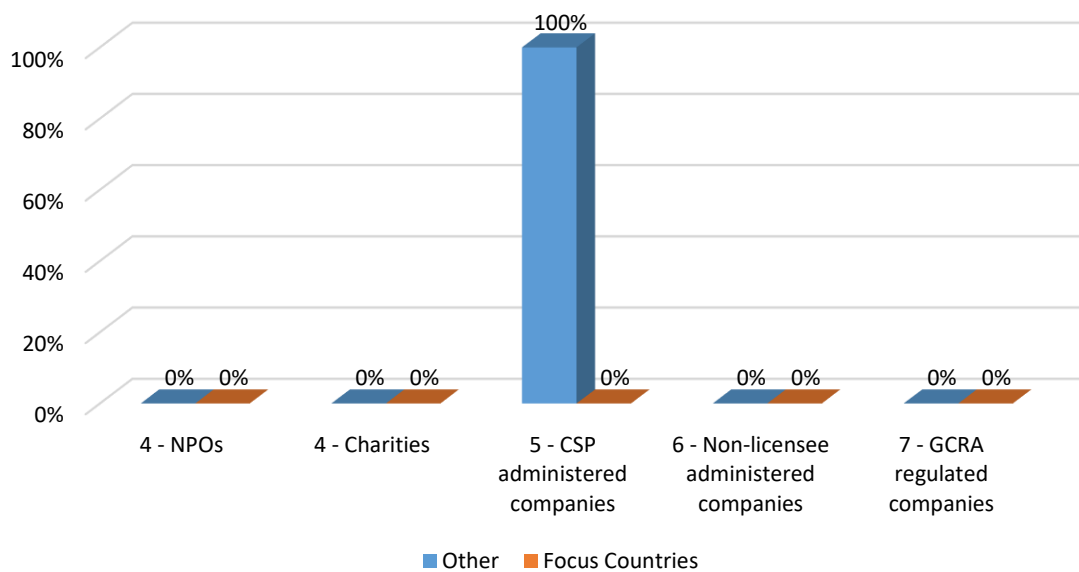
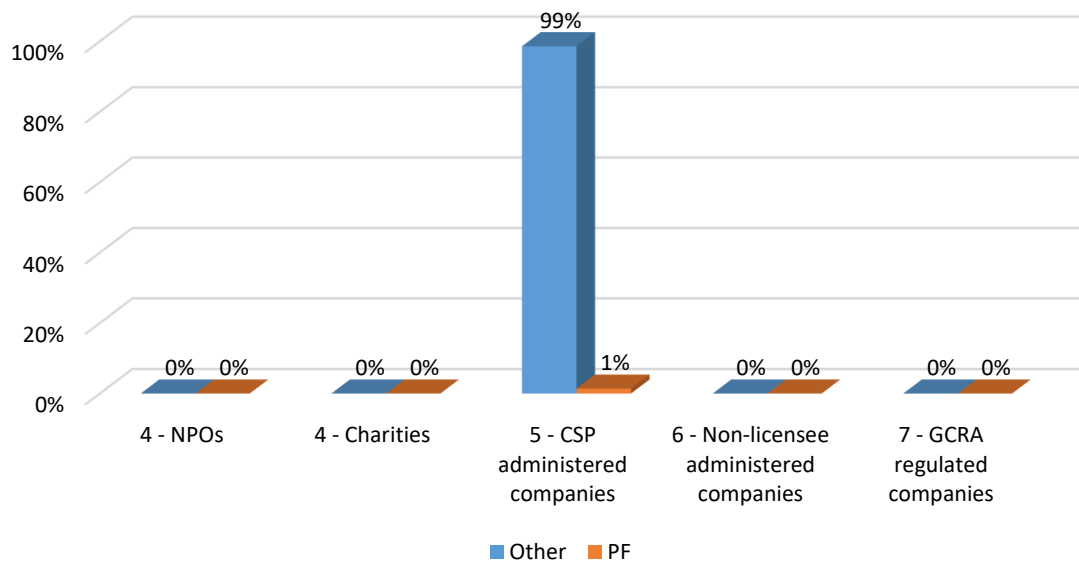


Figure 32: Company categories: high value assets - connections to PF hubs



2.34 The same patterns appear if non-cellular companies holding high value assets are looked at by type rather than by classification category.

Figure 33: Non-cellular companies: high value assets - location

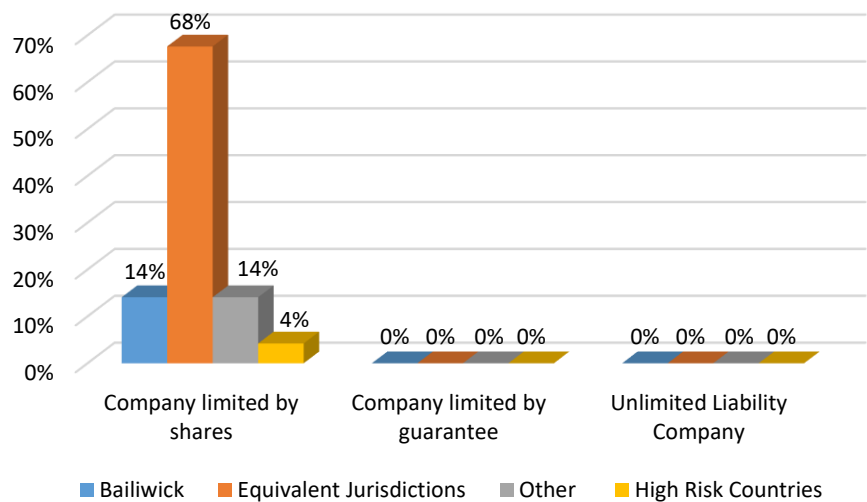


Figure 34: Non-cellular companies: high value assets - connections to TF focus countries

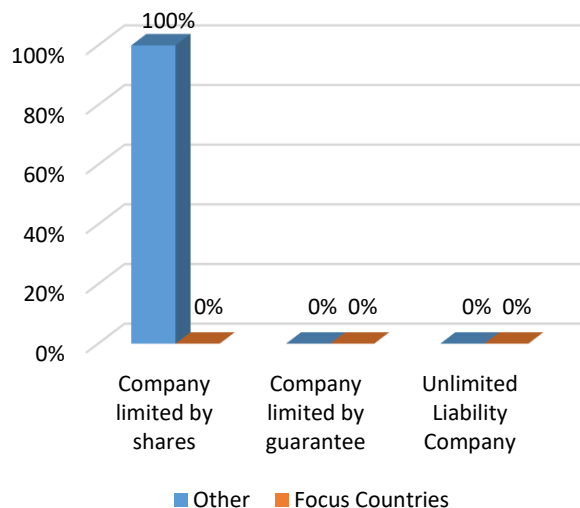
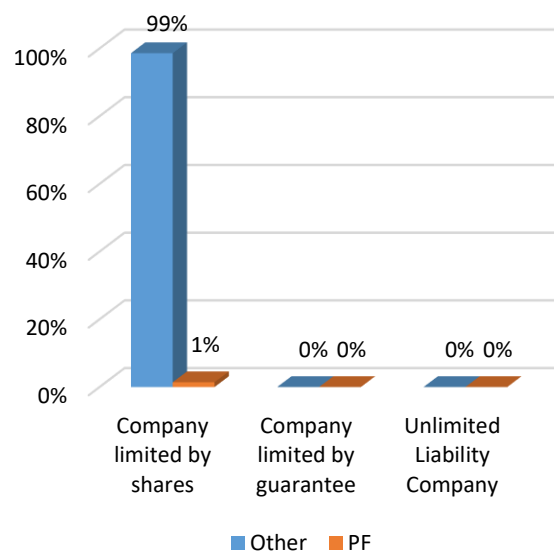


Figure 35: Non-cellular companies: high value assets - connections to PF hubs

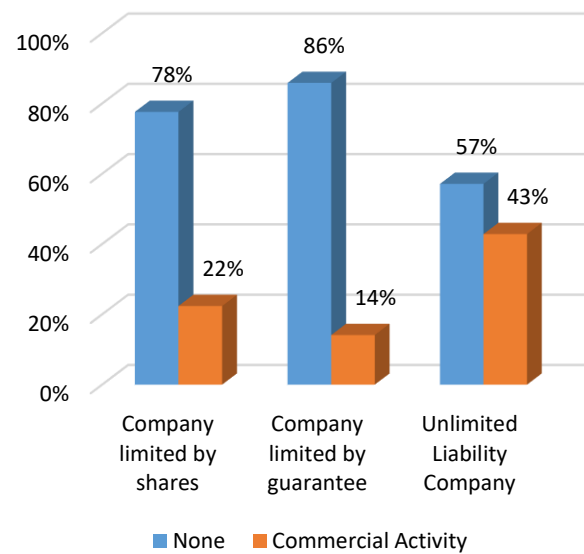


2.35 This pattern of asset holding reflects and underpins the description above about the use of non-cellular companies by the TCSP sector for holding investment portfolios and foreign real estate and the jurisdiction’s strong business links with the UK. Similarly, the fact that residential and commercial real property held by non -licensee administered companies is primarily in the Bailiwick with a small proportion in the UK is what would be expected, given that these companies are primarily established to meet the needs of local residents who will often have family ties or other personal connections in the UK.

Purpose or activity

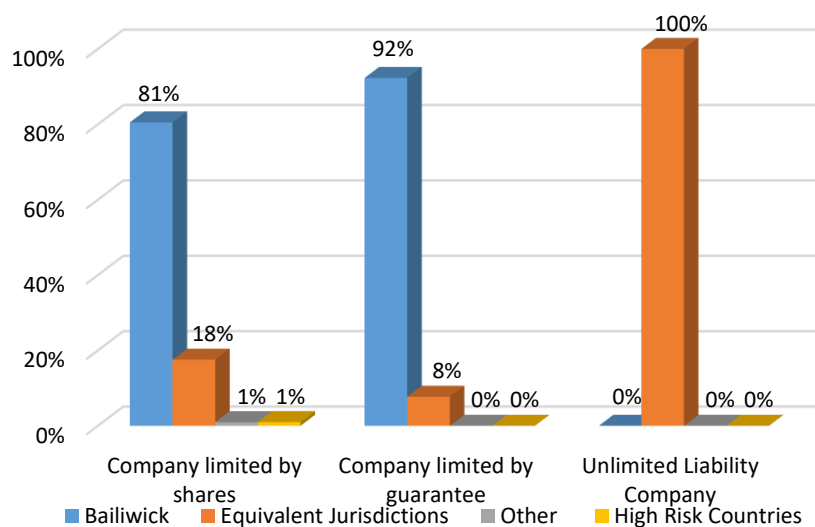
2.36 Analysis has been carried out in respect of the purposes or activities of non-cellular companies administered by a GFSC licensee and non-cellular companies that are not licensee administered, looking at them by company type. The proportion of non-cellular companies that are involved in commercial activity, both as regards those administered by a GFSC licensee and those that are not licensee administered, is low. It comprises 22% of companies limited by shares and 14% of companies limited by guarantee, and while the proportion is higher in relation to unlimited liability companies (43%), this represents only 6 companies.

Figure 36: Non-cellular companies: proportion of entities engaged in commercial activity



2.37 Commercial activities have been analysed by location and type of sector or activity. Out of a total of 3,806 commercially active entities, 81% carry out their activities within the Bailiwick (81% of companies limited by share, and 92% of companies limited by guarantee). As would be expected, this principally involves companies that are non-licensee administered, in line with the fact that they are local businesses established and run by the persons who are carrying out the commercial activity in question. Where commercial activity is conducted outside the Bailiwick, this is primarily in equivalent jurisdictions, with only a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions.

Figure 37: Non-cellular companies: commercial activity - locations



2.38 Further analysis shows that the level of commercial activity carried out in TF focus countries or countries that are proliferation hubs is nil or negligible.

Figure 38: Non-cellular companies: commercial activity - connections to focus countries

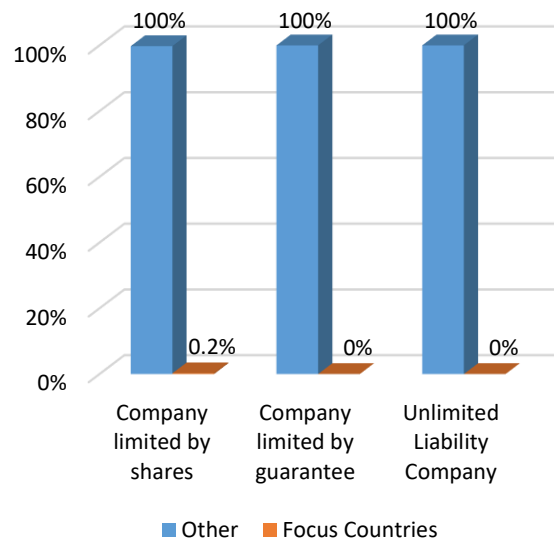
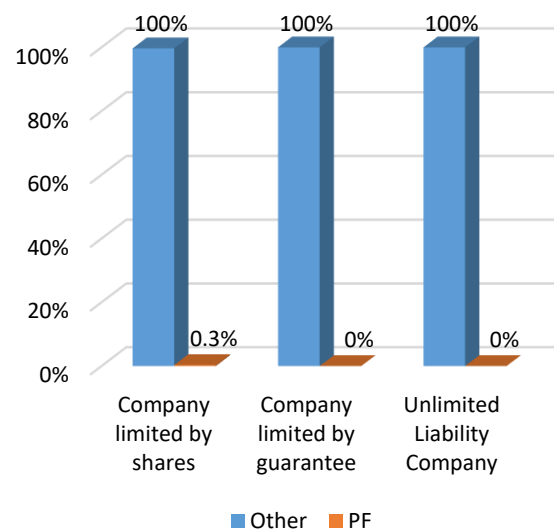
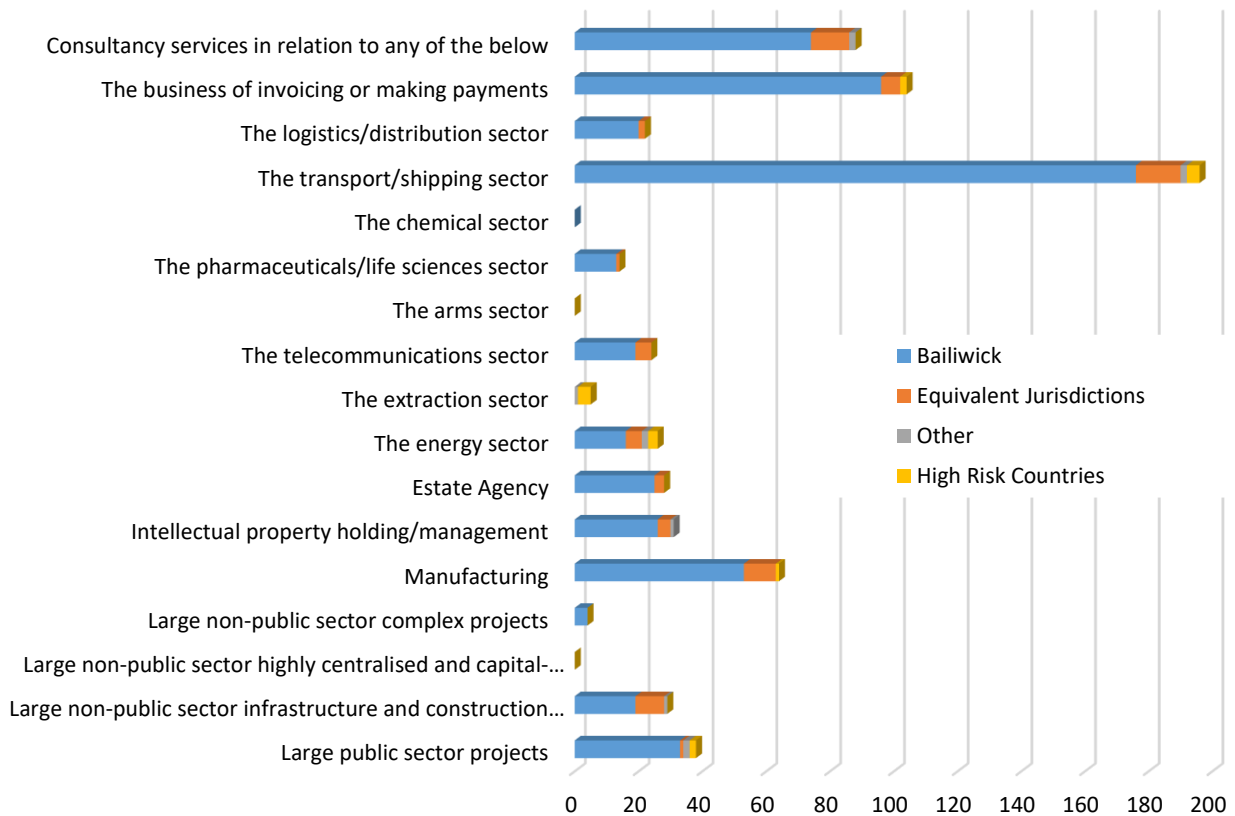


Figure 39: Non-cellular companies: commercial activity - connections to PF hubs



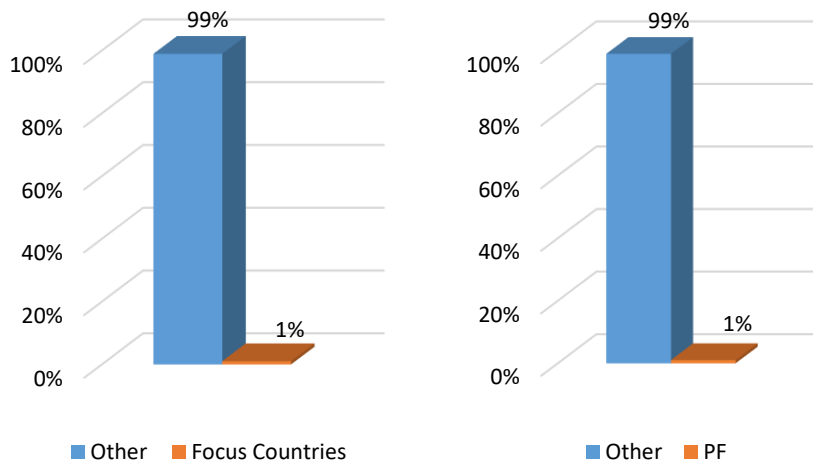
2.39 As regards the sectors or types of activities involved, 675 (18%) out of the 3,806 commercially active companies are undertaking activity that is viewed internationally as high risk for criminality. In the case of both domestic and foreign commercial activity, this primarily involves the transport and shipping sector.

Figure 40: Non-cellular companies: high risk commercial activities - locations



2.40 Further analysis shows that the level of commercial activity carried out in focus countries or countries that are proliferation hubs is nil or negligible.

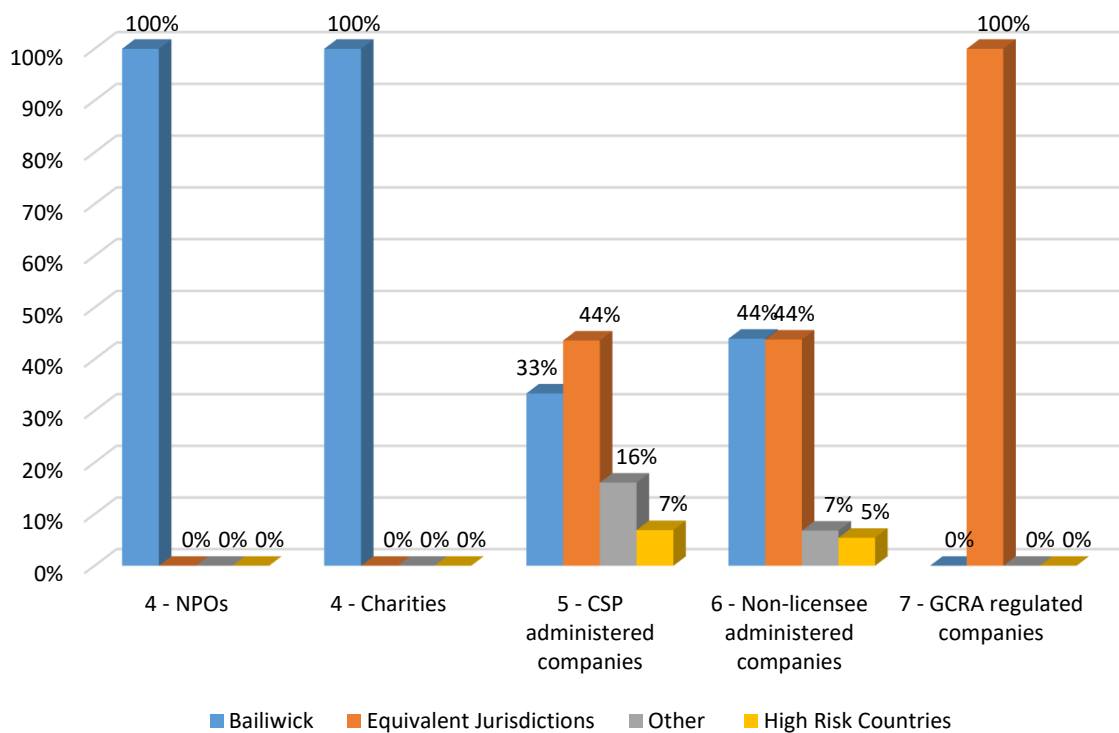
Figures 41 and 42: Non-cellular companies: high risk commercial activities - connections to TF focus countries and PF hubs



Subsidiaries

2.41 Analysis has been carried out in respect of the location of subsidiaries of non-cellular companies administered by a GFSC licensee and non-cellular companies that are not licensee administered. 15% of non-cellular companies limited by shares (2,558 companies) have subsidiaries. Most of these 2,558 companies are administered by a GFSC licensee, as would be expected given that non-licensee administered companies are generally simpler structures created for the needs of local residents. 35% of these subsidiaries are in the Bailiwick. Where they are located elsewhere, most are in equivalent jurisdictions, with a small proportion in non-equivalent jurisdictions or high-risk jurisdictions.

Figure 43: Company categories: subsidiaries - locations



2.42 Further analysis shows that the number and proportion of subsidiaries of non-cellular companies in TF focus countries or countries that are proliferation hubs is nil or negligible.

Figure 44:
Company categories:
subsidiaries - TF
focus countries

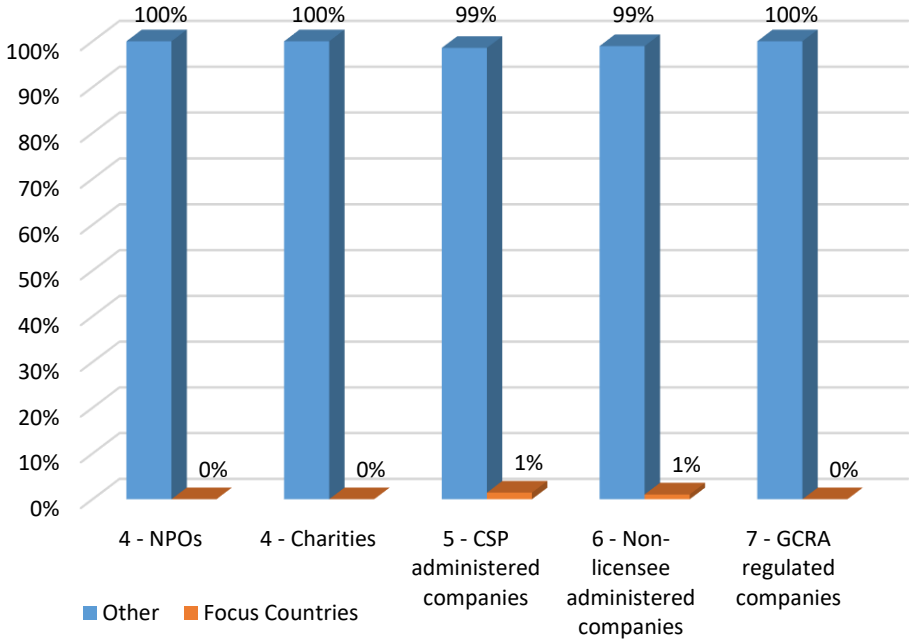
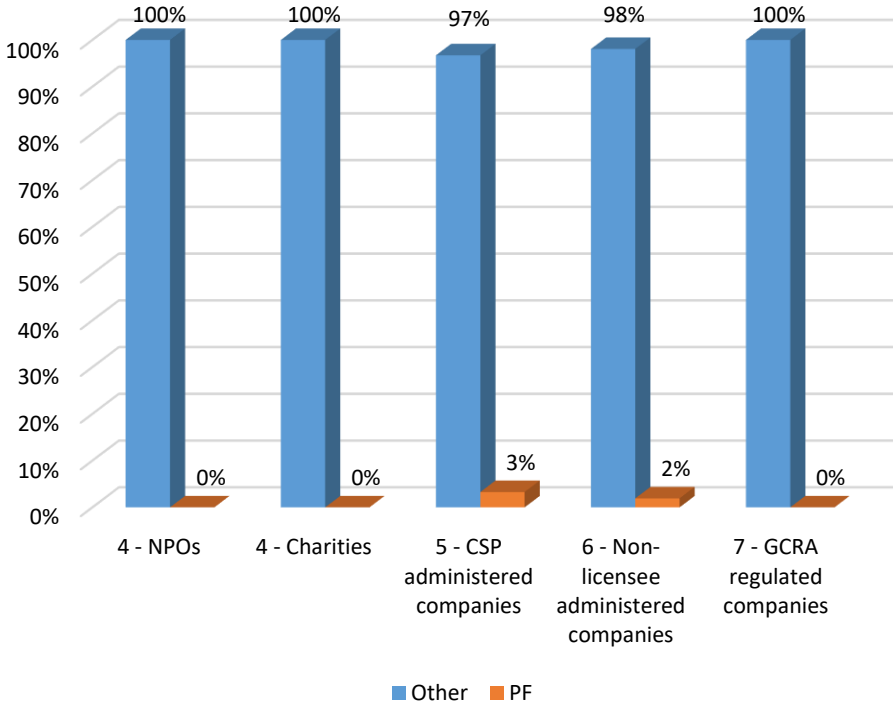


Figure 45: Company categories:
subsidiaries - PF
hubs



2.43 The same pattern emerges when the location of subsidiaries of non-cellular companies is looked at by company type.

Figure 46: Non-cellular companies: subsidiaries - locations

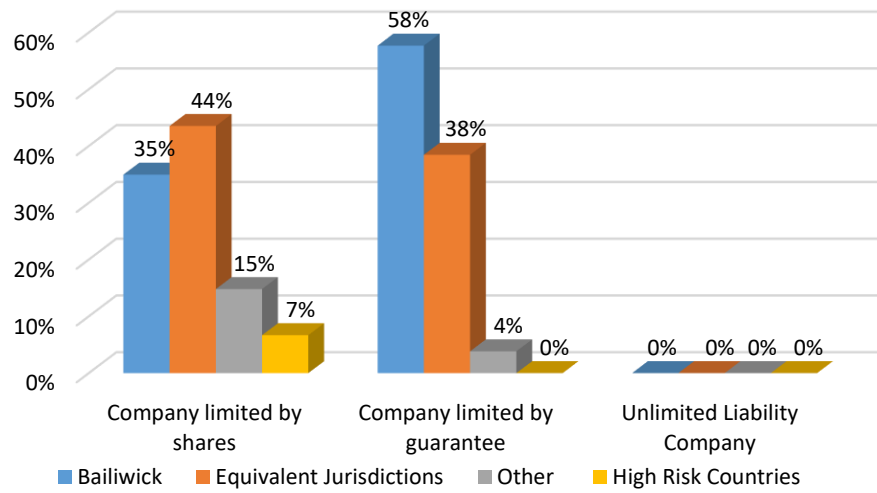


Figure 47: Non-cellular companies: subsidiaries - connections to TF focus countries

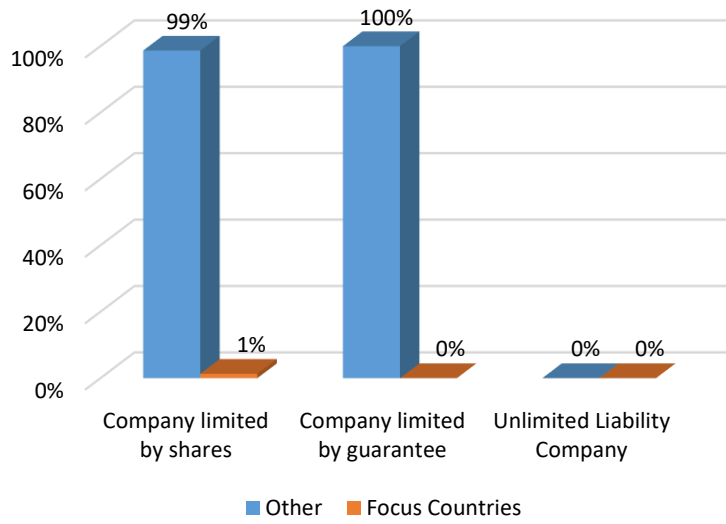
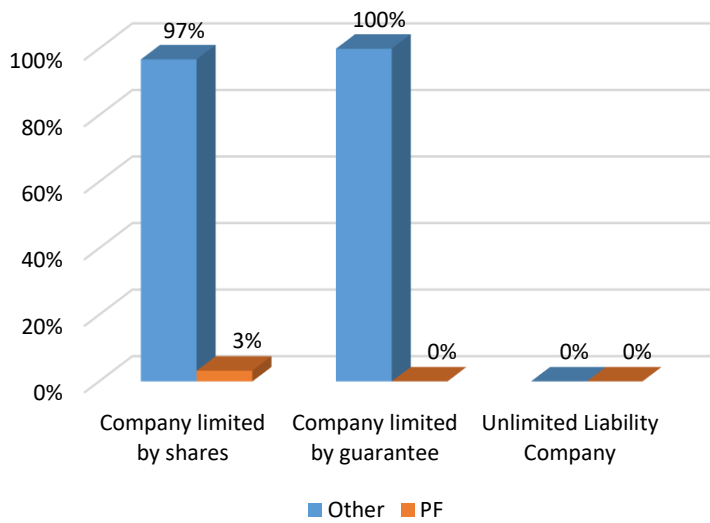


Figure 48: Non-cellular companies: subsidiaries - connections to PF hubs



Risk ratings

Supervised companies - collective investment schemes

Figure 49: Supervised companies - collective investment schemes, materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Very significant materiality by value of underlying assets	Cross border activities where assets are located outside the Bailiwick and partners and investors are resident outside the Bailiwick.	All are subject to supervisory oversight of GFSC and administered by a GFSC licensee supervised for compliance with AML/CFT/CFP obligations.
	The scheme's activities can be vulnerable to criminal activity, particularly if the scheme's assets are located in high-risk countries or in high-risk industries susceptible to bribery and corruption, including underlying trading assets located in TF focus countries.	Establishment requires authorisation or a registration by the GFSC in addition to the company's incorporation by a licensed TCSP.
	Investors may seek to launder proceeds of crime through an investment into a scheme.	Beneficial ownership information (controlling parties) held by the GFSC.
		Engagement of other GFSC licensed persons providing banking, investment management and professional advisory services (e.g. tax, legal and accountancy) who are supervised for compliance with AML/CFT/CFP obligations and hold beneficial ownership information.
		Most are long term and are not flexible as they are closed ended investment schemes so unattractive to parties seeking to use assets for time-specific purpose (e.g. to fund terrorist/proliferation activity) or to launder criminal proceeds because criminals

Materiality	Inherent vulnerabilities	Mitigants
		cannot freely access their capital.
		Licensed administrators, TCSPs and other licensees highly knowledgeable and professional.

2.44 The inherent money laundering risk of supervised companies that are collective investment schemes is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.

2.45 The inherent terrorist financing risk of supervised companies that are collective investment schemes is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.

2.46 The inherent proliferation financing risk of supervised companies that are collective investment schemes is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

Supervised companies - financial services businesses etc.

Figure 50: Supervised companies - financial services businesses, materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Less material by value and number	Apparent respectability conferred by link to a regulated business.	Subject to GFSC fit and proper checks, including professional competency of the principals, and ongoing supervisory oversight by GFSC.
	The potential for criminals and their associates to take ownership and/or control of a financial services business in order to commit financial crimes.	Establishment requires licensing by the GFSC in addition to the company's incorporation by a licensed TCSP.
	The potential for a criminal to use the services of a financial	

Materiality	Inherent vulnerabilities	Mitigants
	<p>services business to launder money, finance terrorism or finance the proliferation of WMD.</p> <p>Can be involved in cross-border activities of kidnap for ransom and marine insurance making them vulnerable to terrorist financing and financing the proliferation of WMD respectively.</p>	<p>Beneficial ownership information held by the GFSC.</p> <p>Engagement of other GFSC licensed persons providing banking, investment management and professional advisory services (e.g. tax, legal and accountancy) who are supervised for compliance with AML/CFT/CFP obligations and hold beneficial ownership information.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

2.47 The inherent money laundering risk of supervised companies that are financial services businesses or established to carry out financial services business is assessed as **Medium Lower**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Lower**.

2.48 The inherent terrorist financing risk of supervised companies that are financial services businesses or established to carry out financial services business is assessed as **Lower** with regard to foreign terrorist activity (except in relation to kidnap for ransom insurance where the inherent terrorist financing risk is **Medium Lower**), and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Much Lower** with regard to foreign terrorist activity (except in relation to kidnap for ransom insurance where the residual terrorist financing risk is **Lower**), and **Very Much Lower** with regard to domestic terrorist activity.

2.49 The inherent proliferation financing risk of supervised companies that are financial services businesses or established to carry out financial services business is assessed as **Lower** (except in relation to marine insurance where the inherent proliferation financing risk is **Medium Lower**). Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Much Lower** (except in relation to marine insurance where the inherent proliferation financing risk is **Lower**).

GFSC licensee administered companies - asset holding/management

Figure 51: GFSC licensee administered companies - Asset holding/management, materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
<p>Very significant materiality by value and number</p>	<p>May be used as part of complex structuring of private wealth involving multiple ownership vehicles.</p> <p>Beneficial owners and/or directors are resident outside the Bailiwick. Assets located outside the Bailiwick.</p>	<p>Basic and beneficial ownership information provided to Registrar by GFSC licensed administrators subject to AML/CFT/CFP obligations.</p> <p>Administered by licenses supervised for compliance with AML/CFT/CFP framework who hold beneficial ownership information.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Engagement of other GFSC licensed persons providing banking, investment and professional advisory services (legal, tax or accountancy) who are supervised for compliance with AML/CFT/CFP framework and hold beneficial ownership information.</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

2.50 The inherent money laundering risk of GFSC licensee administered companies that are used for asset holding or management purposes is assessed as **Much Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Higher**.

- 2.51 The inherent terrorist financing risk of GFSC licensee administered companies that are used for asset holding or management purposes is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 2.52 The inherent proliferation financing risk of GFSC licensee administered companies that are used for asset holding or management purposes is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

GFSC licensee administered companies - other purposes

Figure 52: GFSC licensee administered companies - other purposes, materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Less material by number, reasonably material in value of activities	<p>Some beneficial owners and/or directors are resident outside the Bailiwick.</p> <p>Some assets and/or activities are outside the Bailiwick.</p> <p>Legitimate commercial activities could be used to mask illegal activities or illicit proceeds.</p> <p>Some companies engaged in activities which present an increased risk of bribery and corruption (e.g. extraction industries) or the financing of the proliferation of WMD (e.g. shipping)</p>	<p>Basic and beneficial ownership information provided to Registrar by GFSC licensed administrators subject to AML/CFT/CFP obligations.</p> <p>Administered by licensees supervised for compliance with AML/CFT/CFP framework.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Engagement of other GFSC licensed persons providing banking, investment and professional advisory services (legal, tax or accountancy) who are supervised for compliance with AML/CFT/CFP framework and hold beneficial ownership information.</p>

Materiality	Inherent vulnerabilities	Mitigants
		Licensed TCSPs and other licensed persons highly knowledgeable and professional.

- 2.53 The inherent money laundering risk of GFSC licensee administered companies that are used for other purposes is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.
- 2.54 The inherent terrorist financing risk of GFSC licensee administered companies that are used for other purposes is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 2.55 The inherent proliferation financing risk of GFSC licensee administered companies that are used for other purposes is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

Non-licensee administered companies

Figure 53: Non-licensee administered companies, materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Less material by number and value of activities	Some have beneficial owners and/or directors located outside the Bailiwick.	Basic and beneficial ownership information provided to Registrar.
	Some have assets located outside the Bailiwick and/or carry on activities outside the Bailiwick.	Incorporation by licensed TCSPs subject to AML/CFT/CFP obligations.
	Some used for local businesses which accept a reasonable volume of cash payments.	Provision of information on beneficial ownership and activities to Revenue Service.

Engagement of other GFSC licensed persons providing banking and professional advisory services (legal, tax or accountancy) who are supervised for compliance with AML/CFT/CFP framework and hold beneficial ownership information.

Licensed TCSPs and other licensees highly knowledgeable and professional.

- 2.56 The inherent money laundering risk of non- licensee administered companies is assessed as **Medium** for those that are involved in cross border business and **Medium Lower** for those that are not. Taking into account mitigating measures, these residual money laundering risks are assessed as **Medium Lower** and **Lower** respectively.
- 2.57 The inherent terrorist financing risk of non-licensee administered companies is assessed as **Medium Lower** with regard to foreign terrorist activity for those that are involved in cross border business and **Lower** for those that are not, and **Much Lower** for both with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risks are assessed as **Lower** and **Much Lower** respectively with regard to foreign terrorist activity, and **Very Much Lower** with regard to domestic terrorist activity.
- 2.58 The inherent proliferation financing risk of non-licensee administered companies is assessed as **Medium Lower** for those that are involved in cross border business and **Lower** for those that are not. Taking into account mitigating measures, the residual proliferation financing risks are assessed as **Lower** and **Much Lower** respectively.

3. GUERNSEY COMPANIES (CELLULAR)

Overview

- 3.1 Cellular companies have many of the same features as other Guernsey companies. The difference is that in a cellular company, assets and liabilities are segregated into different cells and treated as separate from the assets and liabilities of other cells or of the core company itself. The effect of this is that assets in a particular cell are not available to the creditors of other cells or of the core company in the event of insolvency.
- 3.2 Cellular companies were pioneered by Guernsey in the 1990s as specialist vehicles to protect the insurance industry against risk contagion but are now used for additional purposes, primarily collective investment schemes. There are two forms of cellular company under Guernsey law, namely PCCs and ICCs.
- 3.3 The PCC was the first type of cellular company available in Guernsey. Its individual cells do not have legal personality. With an ICC, each cell has legal personality so is in effect a separate company.
- 3.4 Cellular companies are used as collective investment schemes authorised or registered by the GFSC and typically marketed to non-Bailiwick resident investors. They hold a wide range of assets usually located outside the Bailiwick. Cellular companies are also used for captive insurance and reinsurance sectors underwriting non-local risks, largely within the general insurance market. While this market is outside the scope of the AML/CFT/CFP regime, it involves insurance managers who are supervised for compliance with AML/CFT/CFP obligations.
- 3.5 There is no material difference in profile between PCCs and ICCs or as regards the way in which they are used. Some people prefer to use ICCs as they regard the distinct legal personality of each cell as strengthening asset segregation. Another attraction is the fact that it is possible to enter into contractual relationships with an IC. ICCs are also often used by start-up businesses to reduce the frictional costs of additional company formation at a later stage because of the ability to convert an IC into a standalone company. However, these factors do not have any bearing on risk.
- 3.6 It is important to note that a cellular structure does not affect the application of AML/CFT/CFP and beneficial ownership obligations, which extend to the ownership of cellular companies and their individual cells in the same way as to the ownership of a

non-cellular company. Similarly, there is no difference between assets held in a cell and assets held by a non-cellular company for the purposes of the criminal justice system, as both are subject to the full range of investigatory and asset recovery measures in the same way. Another important factor is that the consent of the GFSC is required for the formation of any cellular company.

Number and profile.

3.7 There are 996 cellular companies registered with the Guernsey Registry, all of limited liability. 70 are ICCs, 520 are ICs and 406 are PCCs. This breakdown is demonstrated in the charts below, which also identify the proportion that are supervised by the GFSC, administered by a person licensed by the GFSC, or are non -licensee administered.

Figure 54: Cellular companies: overview of company types and their supervision

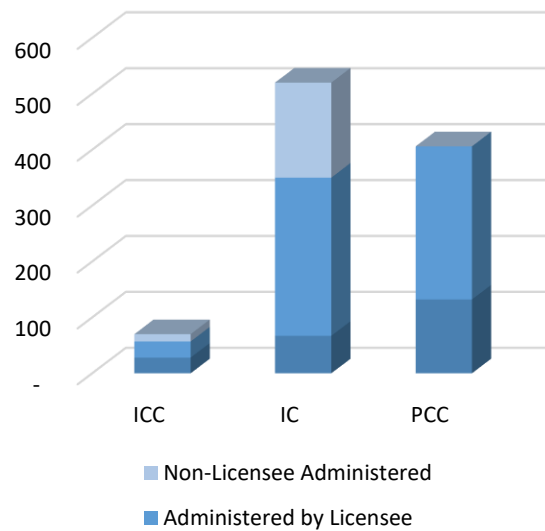
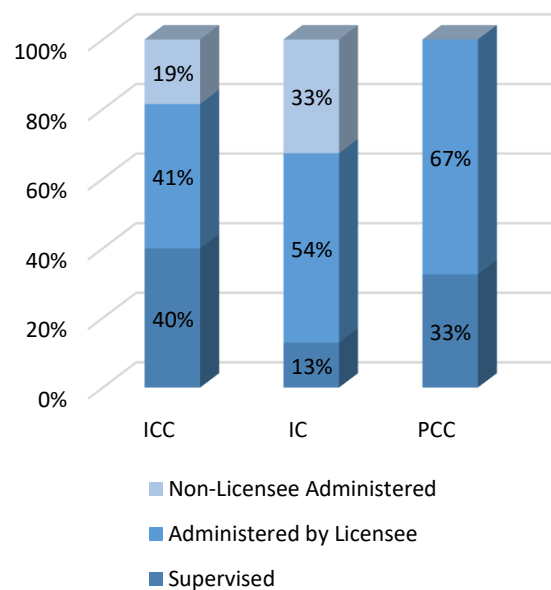


Figure 55: Cellular companies: overview of company types and their supervision as a proportion of the total number of each cellular company type



3.8 As the charts demonstrate, a very high proportion of cellular companies (82%) are either supervised companies or are administered by a GFSC licensee. This reflects the purposes for which they are used, as outlined above, and also the fact that under Guernsey’s company legislation, all PCCs must be administered by a GFSC licensee.

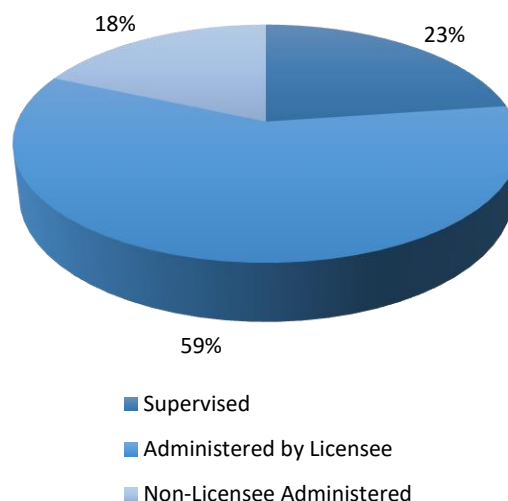
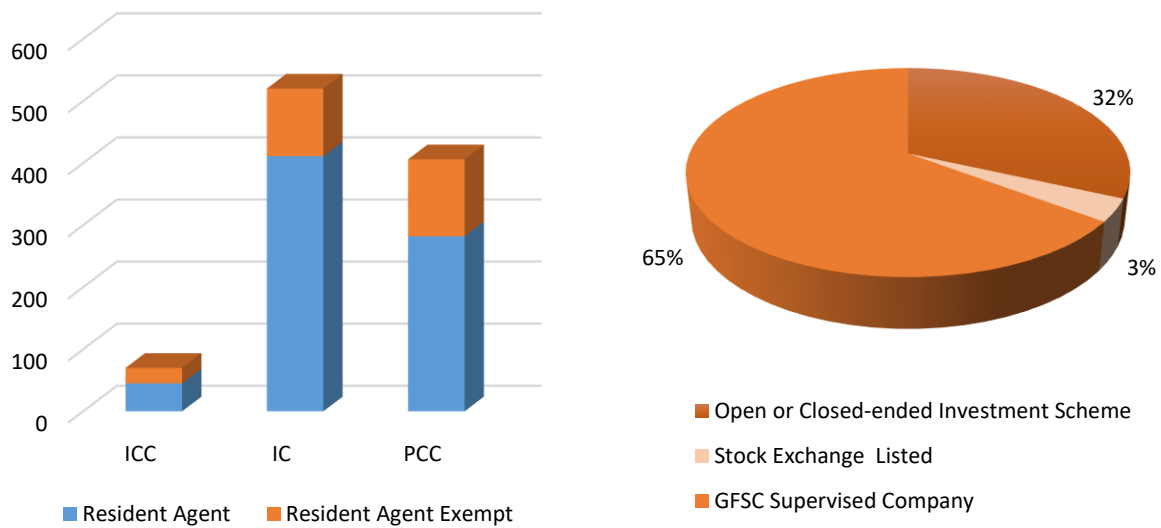


Figure 56: Overview of cellular companies by supervision

3.9 The cellular companies operating as collective investment schemes or for the purposes of other forms of financial services business are subject to the vulnerabilities of collective investment schemes or those other forms of financial services business to money laundering, terrorist financing and proliferation financing described in NRA2.

3.10 The majority of cellular companies have a resident agent. As would be expected given their links to the regulated sector, for most cellular companies the resident agent is a TCSP, although for some 34% of cellular companies the resident agent is a natural person. For the majority of resident agent exempt companies, the reason for the exemption is that they are supervised by the GFSC. Most of the remaining resident agent exempt companies are collective investment schemes, but a very small proportion are listed companies.

Figures 57 and 58: Cellular companies: resident agent and resident agent exempt, and proportion of exemption types applied



Length of time incorporated

3.11 There is some variance as between PCCs, ICCs and ICs in relation to how long they have been incorporated. Overall, more than 50% of cellular companies overall have been incorporated for more than 3 years, with a sizeable proportion of PCCs and ICCs having been incorporated for more than 10 years.

Figure 59: Cellular companies: overview of age since incorporation of all cellular company types

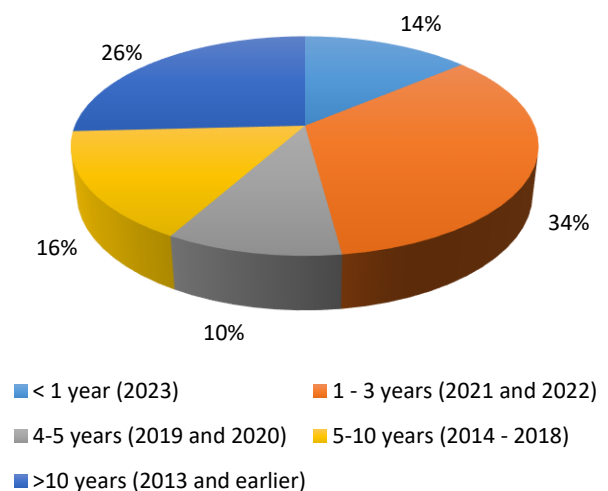
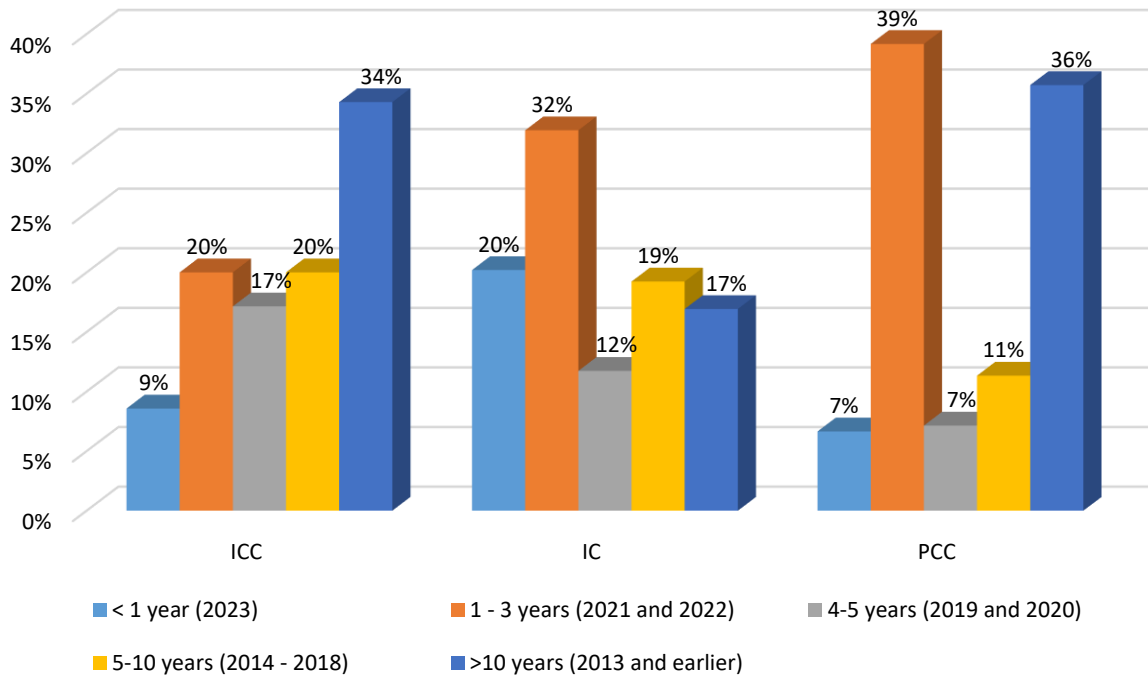


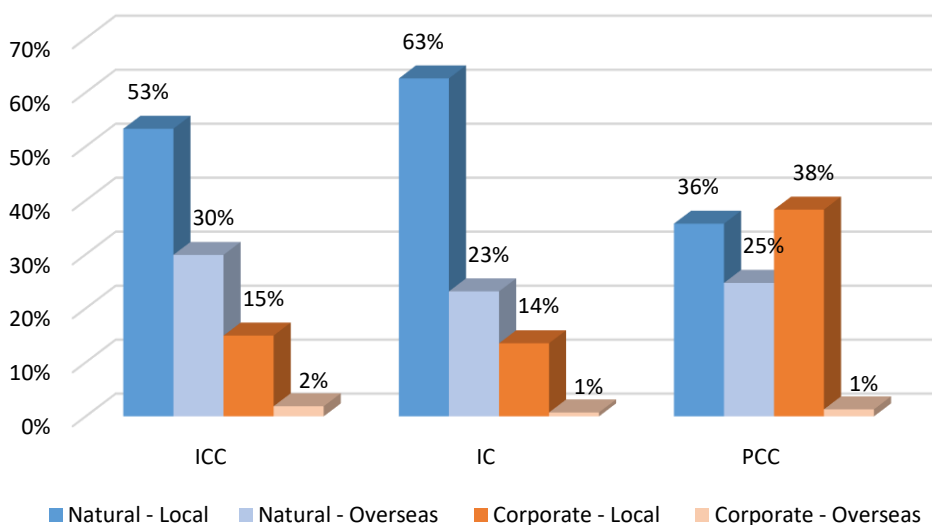
Figure 60: Cellular companies: age since incorporation of ICCs, ICs and PCCs



Linked parties– nature/location

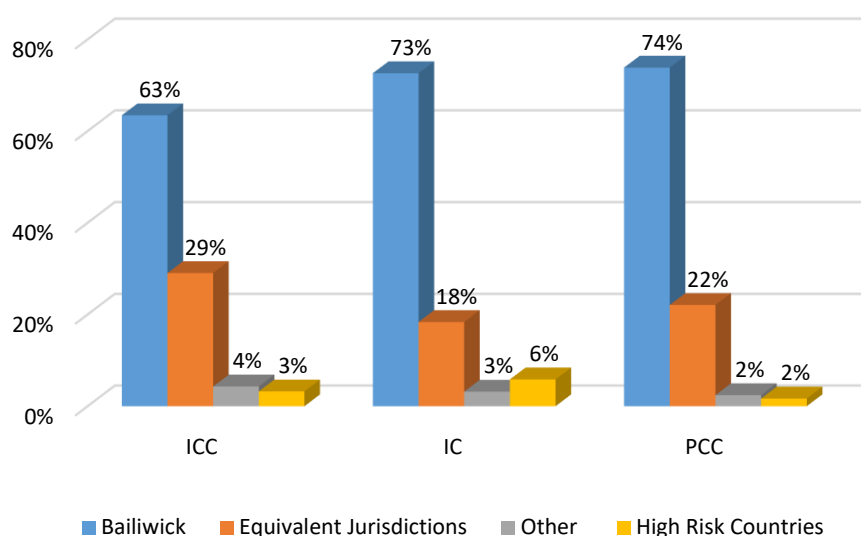
3.12 83% of ICCs, 86% of ICs and 61% of PCCs have directors who are natural persons. The lower proportion of natural persons as directors for PCCs reflects the fact that it is compulsory for them to be administered by a GFSC licensee. In practice, the licensed administrator will generally use a company to act as corporate director, and that company must be licensed by the GFSC.

Figure 61: Cellular companies: director types



3.13 As can be seen, the majority of all directors of cellular companies, whether natural persons or corporate directors, are located in the Bailiwick. Further analysis shows that where they are located outside the Bailiwick, this is primarily in equivalent jurisdictions, with a very small proportion in non-equivalent jurisdictions or high-risk jurisdictions.

Figure 62: Cellular companies: director - locations



3.14 Analysis also shows that the number and proportion of cellular companies with overseas directors that are located in TF focus countries or countries that are proliferation hubs is nil or negligible.

Figure 63: Cellular companies: director - connections to TF focus countries

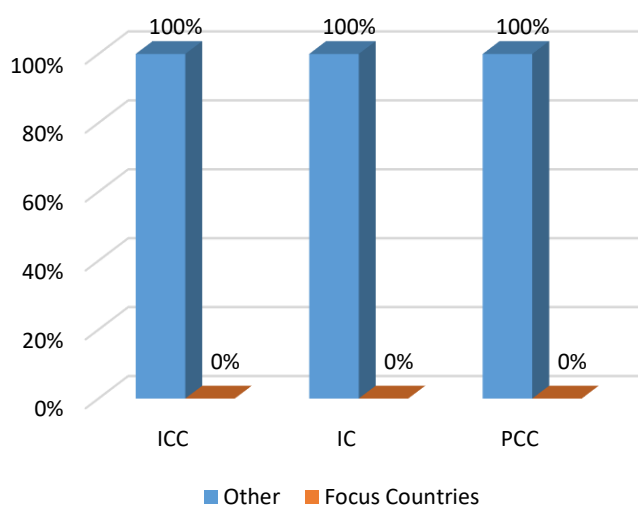
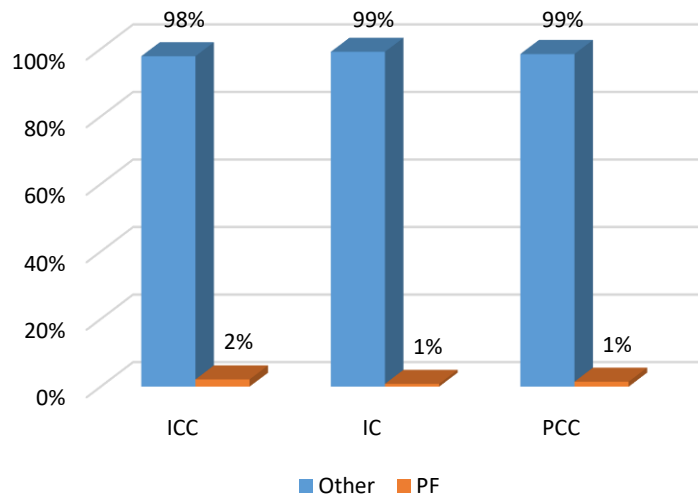


Figure 64: Cellular companies: director - connections to PF hubs



3.15 Overall, 40% of cellular companies have natural persons as their beneficial owners. Most of these individuals are located overseas, primarily in equivalent jurisdictions (although a very small proportion are in non-equivalent jurisdictions or high-risk countries), but approximately 36% are located in the Bailiwick.

Figure 65: Cellular companies: beneficial owner - type

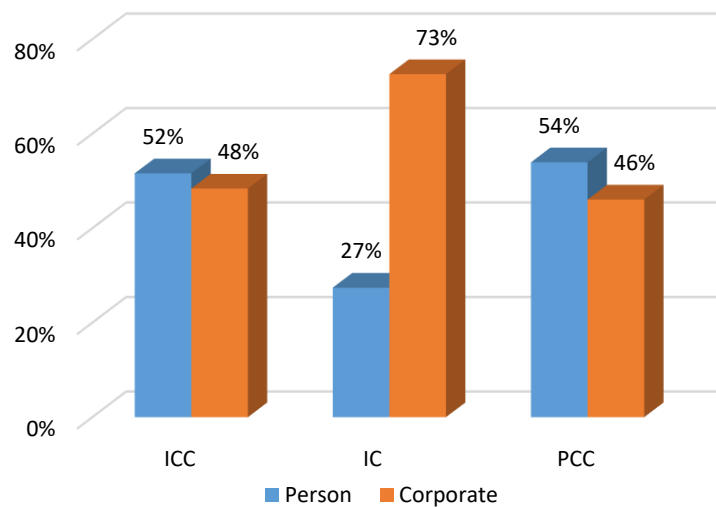
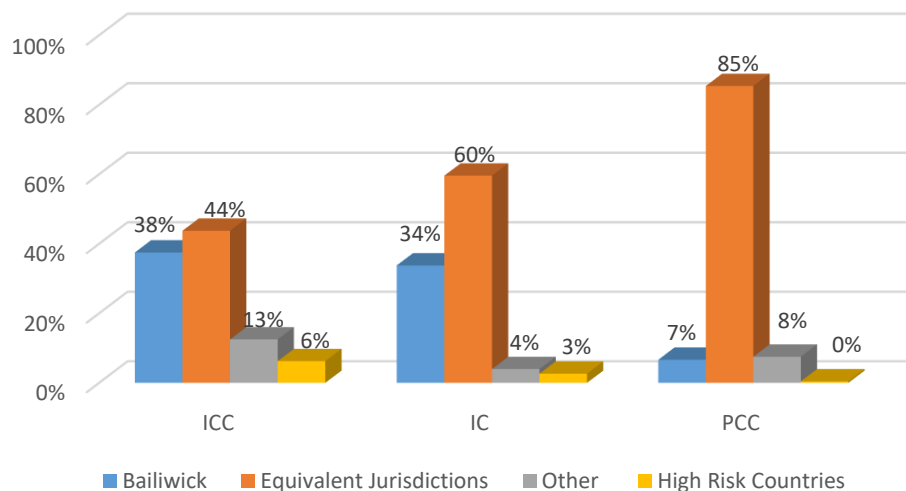


Figure 66: Cellular companies: natural person beneficial owner - location



3.16 Further analysis shows that the number and proportion of cellular companies with natural persons as beneficial owners who are located in TF focus countries or countries that are proliferation hubs ranges from very low to negligible or nil.

Figure 67: Cellular companies: natural person beneficial owner - connections to TF focus countries

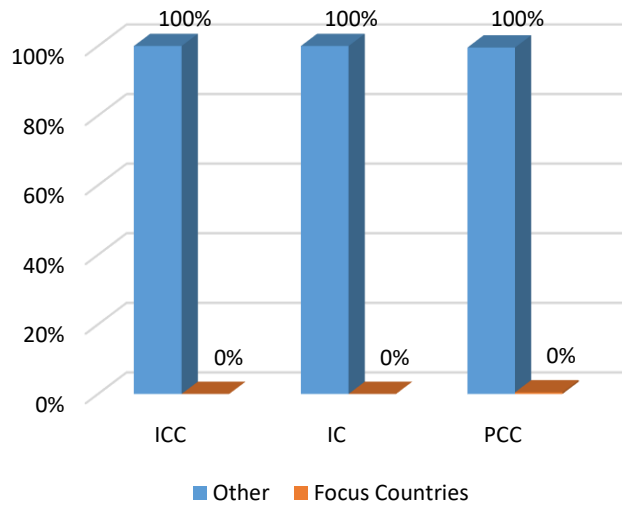
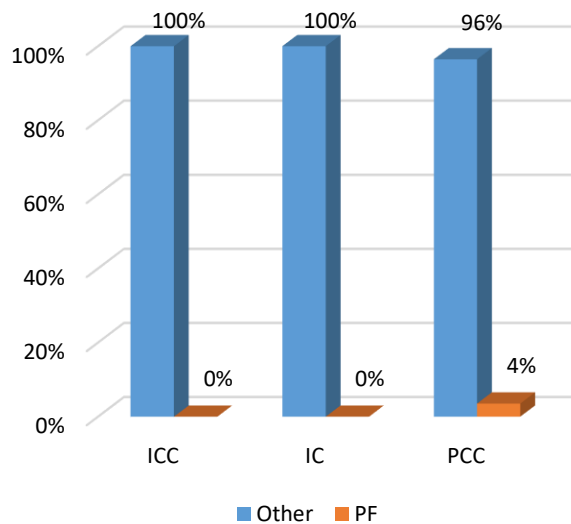
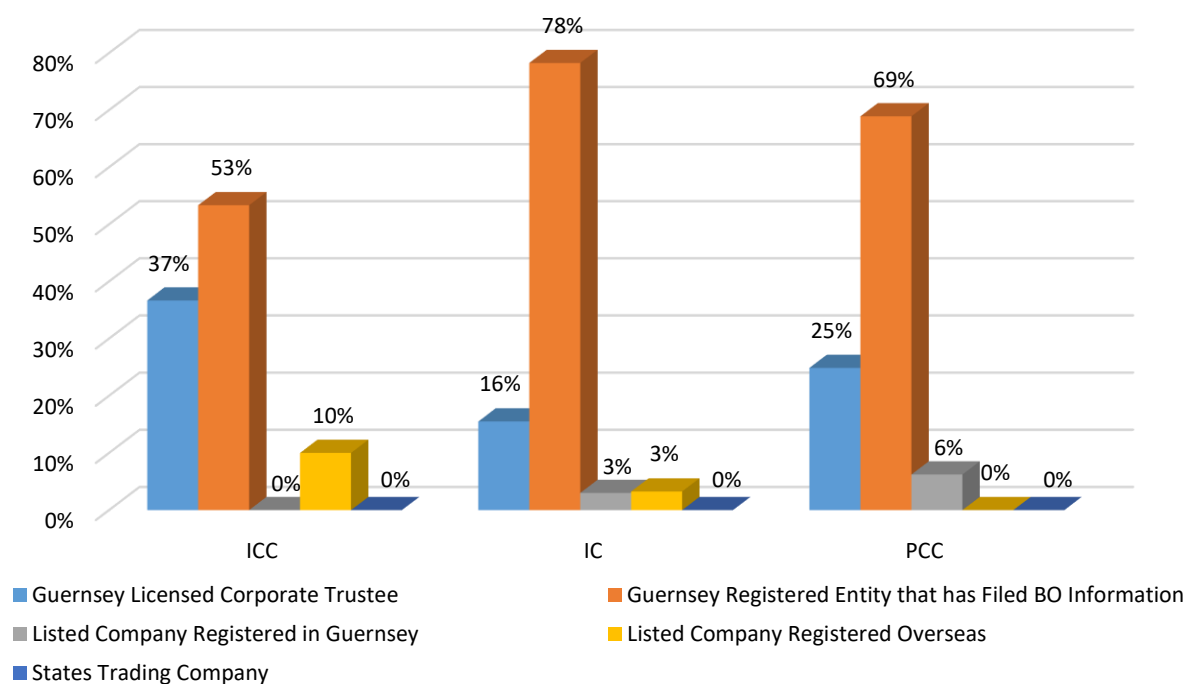


Figure 68: Cellular companies: natural person beneficial owner - connections to PF hubs



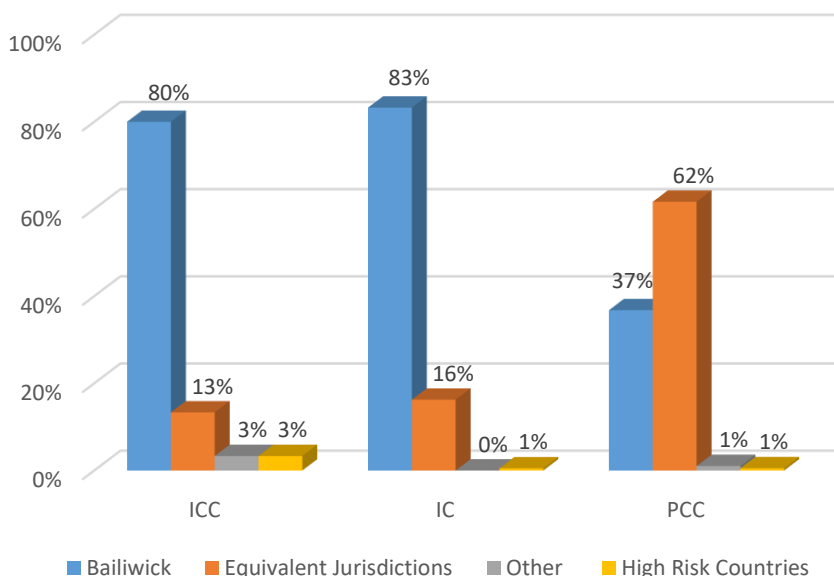
3.17 Of the 60% of cellular companies that have corporate beneficial owners, in the vast majority of cases these are legal persons listed on the register (and whose beneficial ownership information is therefore already available) or corporate trustees licensed by the GFSC.

Figure 69: Cellular companies: corporate beneficial owner - types



3.18 Most corporate beneficial owners of cellular companies are located in the Bailiwick, although in the case of PCCs the proportion of non-Bailiwick corporate beneficial owners is higher. Where corporate beneficial owners are located outside the Bailiwick, the vast majority are in equivalent jurisdictions, with a very small proportion in non-equivalent jurisdictions or high-risk countries.

Figure 70: Cellular companies: corporate beneficial owner - locations



3.19 Further analysis shows that the number and proportion of cellular companies with corporate beneficial owners located in TF focus countries or countries that are proliferation hubs is nil or negligible.

Figure 71: Cellular companies: corporate beneficial owner - locations

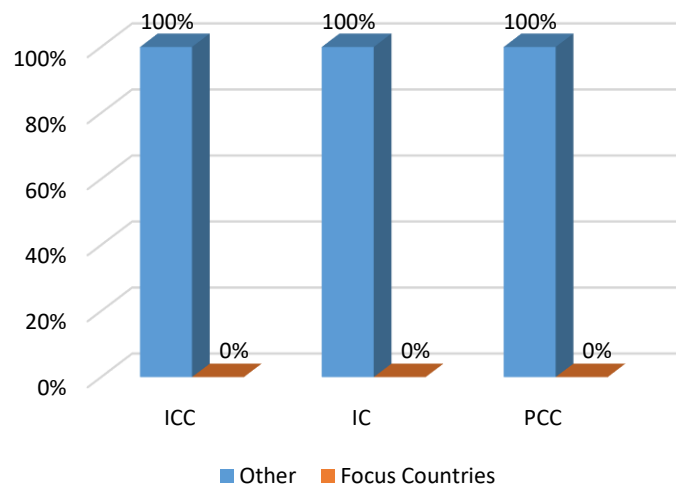
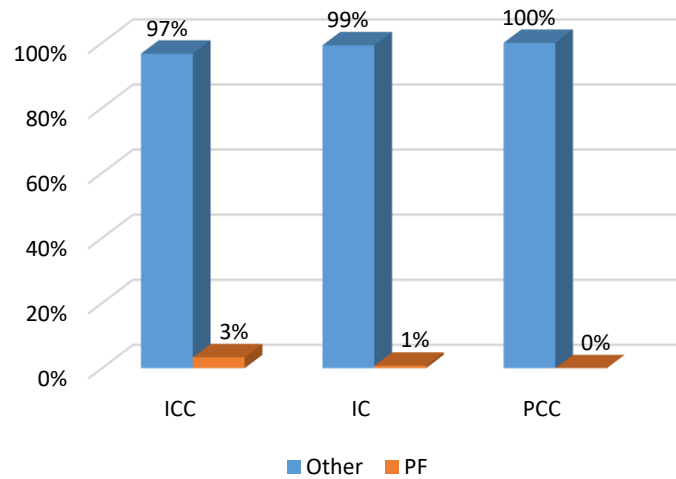


Figure 72: Cellular companies: corporate beneficial owner - locations



Assets

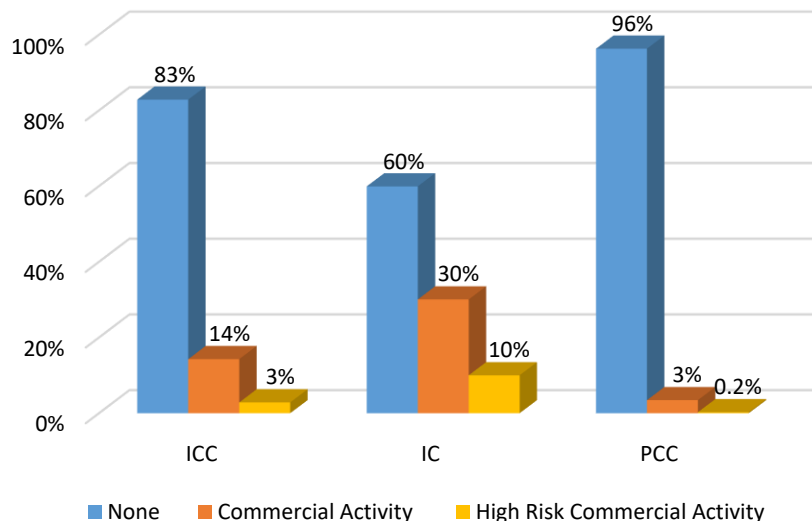
3.20 Asset holding by cellular companies (other than supervised companies, including collective investment schemes) is very limited. None hold high value tangible assets. 2 ICs and 1 PCC own commercial real property in the UK, 5 PCCs hold residential property in the UK and 1 PCC holds residential property in the Caribbean.

	Property - UK	Land and Property – UK	Land and Property – Overseas
Commercial	2	1	
Residential	4	1	1

Purpose or activity

3.21 235 cellular companies are involved in commercial activity. This comprises 40% of ICs, 17% of ICCs and 4% of PCCs. This low level of commercial activity is as would be expected, given the purposes for which cellular companies are created. Of the 13% high risk activities indication in the graph below, all but one entity is in the shipping and transport sector.

Figure 73: Cellular companies - proportion of entities engaged in commercial activity



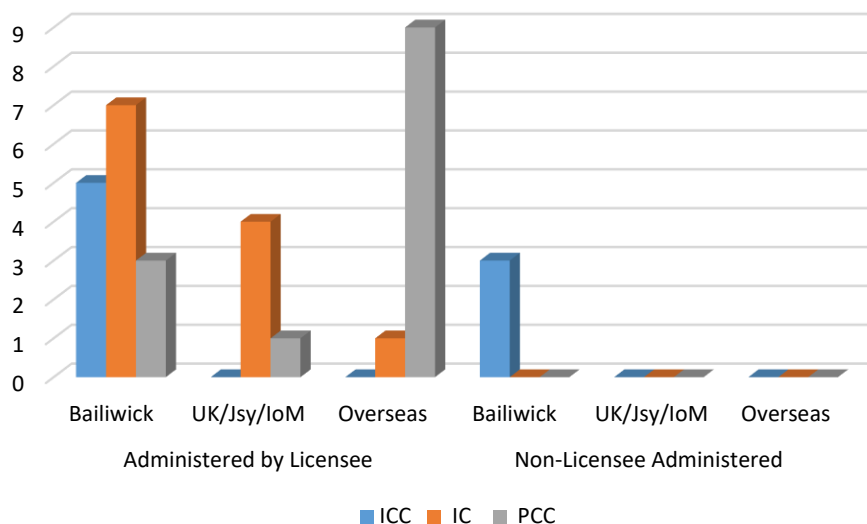
3.22 The only noteworthy feature of the use of cellular companies in commercial activity is where that commercial activity involves the provision of crew and payroll services to the maritime sector. This has been identified as an area of concern internationally because of potential links to high-risk countries from a proliferation perspective, primarily North Korea. Therefore, although the number of cellular companies engaged in this activity is small, it has been the subject of additional analysis. Most of these companies are administered by TCSPs, all of which take measures to identify the underlying owners, countries of registration and location of the vessels for which they are providing services. Outreach to the non-TCSP administered companies has confirmed that they apply similar controls. No links between any cellular company and North Korea or other proliferation hub have been identified.

3.23 234 of the 235 cellular companies engaged in commercial activity, do so locally with the remaining entity undertaking activities in the UK. No cellular companies are undertaking commercial activities located in TF focus countries or countries that are proliferation hubs.

Subsidiaries

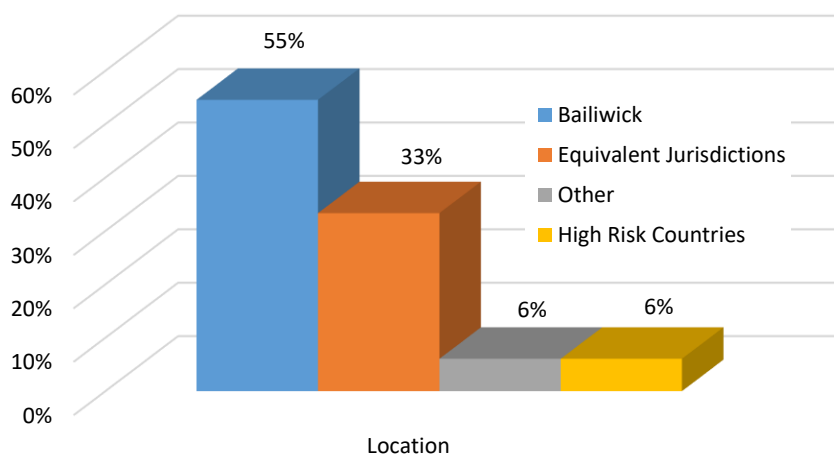
3.24 8 ICs, 8 ICCs and 13 PCs have subsidiaries. Except for a very small number of non-licensee administered ICCs that have subsidiaries in the Bailiwick, all of the cellular companies that have subsidiaries are administered by a GFSC licensee.

Figure 74: Cellular companies: subsidiary - locations by cellular type and supervision



3.25 Most subsidiaries of cellular companies are located in the Bailiwick. Where subsidiaries are located outside the Bailiwick, the majority are in equivalent jurisdictions. While approximately 30% of PCC subsidiaries are in non-equivalent jurisdictions or high-risk countries, this only amounts to 3 entities.

Figure 74: Cellular companies: subsidiary - locations



3.26 Further analysis shows that that no cellular companies have subsidiaries located in TF focus countries or countries that are proliferation hubs.

Figure 75: Cellular companies: subsidiary - connections to TF focus countries

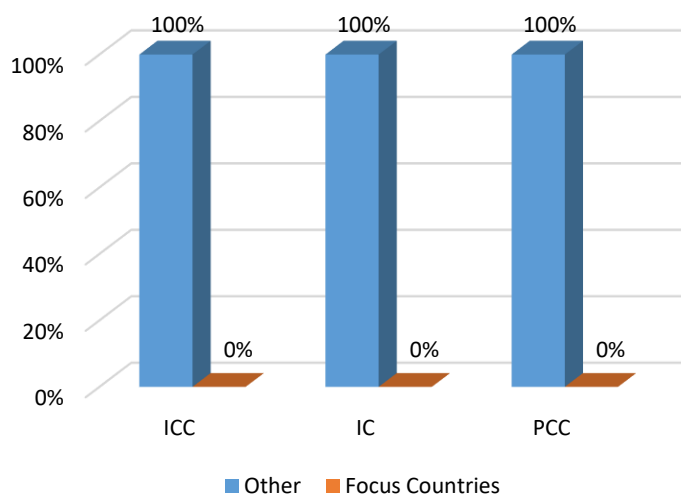
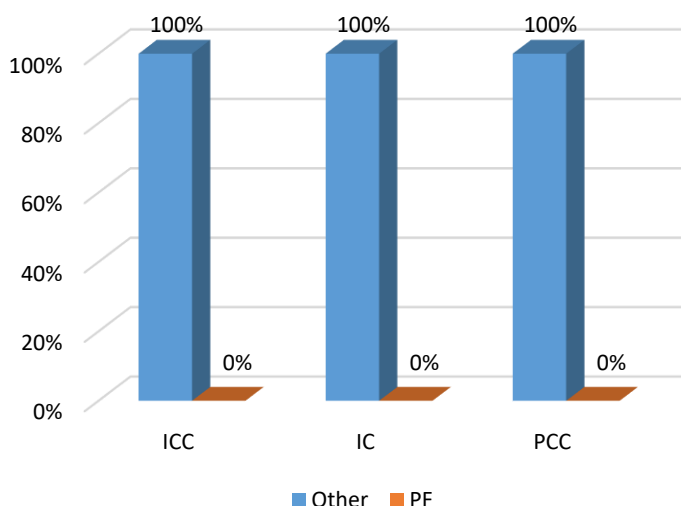


Figure 76: Cellular companies: subsidiary - connections to PF hubs



Risk ratings

Figure 77: Cellular companies, materiality, inherent vulnerabilities, and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Much less material by number, reasonably material in value.	Directors and/or beneficial owners are outside the Bailiwick.	Basic and beneficial ownership information provided to Registrar.
	Assets outside the Bailiwick	Incorporated by licensed TCSPs.
	Activities connected to shipping are vulnerable to the	GFSC consent required for formation.

Materiality	Inherent vulnerabilities	Mitigants
	financing the proliferation of WMD.	<p>Most supervised by GFSC or administered by licensees supervised for compliance with AML/CFT/CFP framework.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Engagement of other GFSC licensed persons providing banking, investment and professional advisory services (e.g. tax, legal, or accountancy) who are supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>Some are used as collective investment schemes so also subject to the same inherent vulnerabilities and mitigants as companies which are collective investment schemes.</p> <p>Some which are licensed insurers will be subject to similar vulnerabilities and mitigants as companies which are financial services businesses.</p>

- 3.27 Overall, the different types of cellular company are broadly similar from a risk perspective. Therefore, composite risk ratings are applied for all types of cellular company.
- 3.28 The inherent money laundering risk of cellular companies is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.

- 3.29 The inherent terrorist financing risk of cellular companies is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 3.30 The inherent proliferation financing risk of cellular companies is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

4. ALDERNEY COMPANIES⁸

Overview

- 4.1 Other than the fact that Alderney company law does not allow for the creation of cellular companies, Alderney companies share many of the features of Guernsey companies. The same obligations apply in relation to the rights and obligations of directors, members, beneficial owners and resident agents, and as in Guernsey there are central registers of basic and beneficial ownership information.
- 4.2 The liability of the members of an Alderney company is limited by shares or by guarantee. This means that a member will only be liable for the company's debts up to the amount unpaid on shares they hold in the case of a company limited by shares, or up to the amount they have agreed to contribute to the company's assets if it is wound up in the case of a company limited by guarantee.
- 4.3 An Alderney company may be public or private. Broadly speaking, public companies are those with more than 20 members. There are differences in the restrictions applicable to public and private companies, but as with differences in the liability of members, these differences do not have any bearing on transparency issues or the application of mitigating measures.

Number and profile

- 4.4 There are 291 companies registered with the Alderney Registry. 283 of these are private companies limited by shares, 4 are private companies limited by guarantee, and 4 are public companies limited by shares. There are no public companies limited by guarantee. 66% of Alderney companies (193) involve basic structures which have no layers, whereby there are no other companies involved and the shareholders are the beneficial owners. The high level of simple structures reduces the risk of misuse of legal persons in the jurisdiction.
- 4.5 The Alderney Registry distinguishes between companies according to their activity.

⁸ The format in this section is different from that for other legal persons. This is because the Guernsey and Alderney Registries use different data collection systems, in line with the fact that the number of legal persons registered in Alderney is much lower than in Guernsey.

Figure 78: Alderney companies - activity codes and descriptions

Activity Code	Activity Description
A	Carrying out business or other activity (including charities) within the Bailiwick
B	Holding real property within the Bailiwick
C	Holding other forms of property within the Bailiwick
D	Holding real property outside the Bailiwick
E	Holding other forms of property outside the Bailiwick
F	Carrying out business or other activity (including charities) outside the Bailiwick
G1	Egambling licensee
G2	Activity associated with egambling
H	Other

4.6 The table below shows the number of companies, divided by activity, each activity being divided into how many are administered by a GFSC licensee and how many are not, and for each of these sub-categories how many have (a) one or more Bailiwick resident directors and (b) only have Bailiwick resident directors and (c) how many for which a director is resident agent and beneficial owner. (NB Because the table lists companies by activity and some companies carry out more than one activity, the total number in the table is higher than the total number of companies).

Figure 79: Alderney companies - supervision and directors

Company Activity	Companies Administered by a Licensee (TCSP)				Companies Administered by Non-Licensee			
	No of Companies	Bailiwick Directors	Only Bailiwick Directors	Director is Resident Agent & Beneficial Owner	No of Companies	Bailiwick Directors	Only Bailiwick Directors	Director is Resident Agent & Beneficial Owner
A	13	8	2	2	121	121	87	87
B	4	2	2	1	42	42	35	35
C	7	7	7	6	8	8	5	4
D	8	4	3	2	11	11	6	3
E	8	7	7	3	6	6	4	2
F	18	13	4	0	51	51	13	5
G1	33	23	9	0	0	0	0	0
G2	23	18	7	0	2	2	1	1
H	20	9	7	0	10	10	7	5

4.7 The second table below shows the number of companies, divided by activity and, for each activity, the number in each category of company activity which have nominees, the number with directors or beneficial owners in Jersey, the Isle of Man or the UK,

the number with foreign directors or beneficial owners resident outside the British Isles, and the number with directors and beneficial owners in high-risk jurisdictions.

Figure 80: Alderney companies - nominees and beneficial owners

Company Activity	Total Number of Companies	Nominees	Bailiwick resident director	BO all Bailiwick resident	Director in Jersey/I OM/UK	BO in Jersey/I OM/UK	Director outside British Isles	BO outside British Isles	Director in high-risk jurisdiction*	BO in high-risk jurisdiction*
A	134	1	129	101	32	24	17	12	0	0
B	46	1	44	38	9	4	3	2	0	0
C	15	5	15	7	2	5	1	4	0	0
D	19	1	15	10	6	7	3	3	0	0
E	14	3	13	7	1	3	2	4	0	0
F	69	2	64	44	14	8	25	9	0	0
G1	33	2	23	6	10	12	20	18	0	0
G2	25	0	20	7	6	12	13	5	0	0
H	30	1	19	7	13	17	7	10	0	0

4.8 As can be seen, the majority of Alderney companies are entirely Bailiwick-focused in their activities. Furthermore, for most of these companies, the resident agent is also a beneficial owner so there is unlikely to be any uncertainty about who is actually controlling the company. This in turn makes the prospect of these companies being used for illicit purposes remote. Six of these companies are used by the States of Alderney for public purposes. Sixty-five are small local businesses (e.g. grocery shops, butchers, fishmongers, hardware shops, stationery, garden equipment, electricity, gas, heating oil, bars and restaurants, mechanics, builders, builders' merchants and plumbers).

4.9 For the small number of Alderney companies that do have links outside the Bailiwick, the majority of those links are within the British Isles, and none involve high risk countries, TF focus countries or proliferation hubs. Furthermore, most are connected with the eCasino sector so come within the oversight of the AGCC. Therefore, while they are involved in cross-border activity, the risks from that activity are mitigated by the strong controls applied by the AGCC. Another mitigating factor is that nearly all companies with overseas links are administered by a TCSP subject to the oversight of the GFSC. Further, nominee relationships feature in very few companies and for most of those, any risks of misuse are reduced by the fact that the relationship involves a TCSP, or other party licensed by the GFSC.

Length of time incorporated

4.10 Approximately half of Alderney companies were incorporated more than 25 years ago. Many of the remainder were incorporated at least 10 years ago and, in some cases, almost 15 years ago.

Risk ratings

Figure 81: Alderney companies - materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Very much less material by number, less material in value.	<p>Some directors or owners are outside the Bailiwick. Assets of some companies located outside the Bailiwick.</p> <p>Some use for local business which may accept reasonable volume of cash payments.</p>	<p>Basic and beneficial ownership information provided to Registrar.</p> <p>Many supervised by AGCC and subject to fit and proper checks by AGCC or administered by licensees supervised for compliance with AML/CFT/CFP framework.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Engagement of other GFSC licensed persons providing banking, legal, accountancy services etc. who are supervised for compliance with AML/CFT/CFP framework and hold beneficial ownership information.</p> <p>Licensed TCSPs and other GFSC/AGCC licensees highly knowledgeable and professional.</p>

- 4.11 The inherent money laundering risk of Alderney companies is assessed as **Medium** for those that are involved in cross border business and **Medium Lower** for those that are not. Taking into account mitigating measures, these residual money laundering risks are assessed as **Medium Lower** and **Lower** respectively.
- 4.12 The inherent terrorist financing risk of Alderney companies is assessed as **Medium Lower** with regard to foreign terrorist activity for those that are involved in cross border business and **Lower** for those that are not, and **Much Lower** for both with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risks are assessed as **Lower** and **Much Lower** respectively with regard to foreign terrorist activity, and **Very Much Lower** with regard to domestic terrorist activity.
- 4.13 The inherent proliferation financing risk of Alderney companies is assessed as **Medium Lower** for those that are involved in cross border business and **Lower** for those that are not. Taking into account mitigating measures, the residual proliferation financing risks are assessed as **Lower** and **Much Lower** respectively.

5. LIMITED PARTNERSHIPS WITH LEGAL PERSONALITY

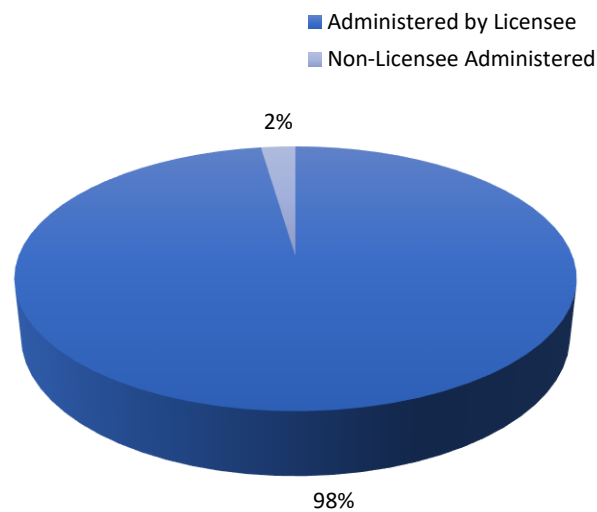
Overview

- 5.1 Limited partnerships have general partners, who have unlimited joint and severable liability for the debts of the partnership, and limited partners, whose liability for the debts of the partnership is limited to the extent of their contributions to its capital. Control of limited partnerships rests with the general partners, whose identity is recorded on a public central register. The names and addresses of all limited partners, including the capital account of each limited partner and details of the amounts and dates of their contributions, are recorded in a register that must be kept at a registered address in Guernsey. These features are common to all limited partnerships. In addition, beneficial ownership information in respect of limited partnerships with legal personality is recorded on a central beneficial ownership register.
- 5.2 If the general partners make an election for legal personality, this must be stated in a signed declaration filed with the Registrar at the time of registration. The limited partnership will then have legal personality, which must be stated on the certificate of registration, and the name of the limited partnership must contain the word “incorporated” or an abbreviation thereof. The election of legal personality affects commercial factors (e.g. contractual capacity), but it has no bearing on transparency issues or the application of mitigating measures.
- 5.3 Limited partnerships were introduced as specialist vehicles to facilitate the creation and operation of collective investment schemes, and the vast majority are still used for these purposes.

Number and profile

- 5.4 There are 600 limited partnerships with legal personality registered with the Guernsey Registry. 98% (586) are administered by a GFSC licensee, and 2% (14) are non-licenssee administered. This reflects their use as, or for purposes connected with, collective investment schemes or other asset or investment holding vehicles.

Figure 82: Limited partnerships with legal personality - supervision

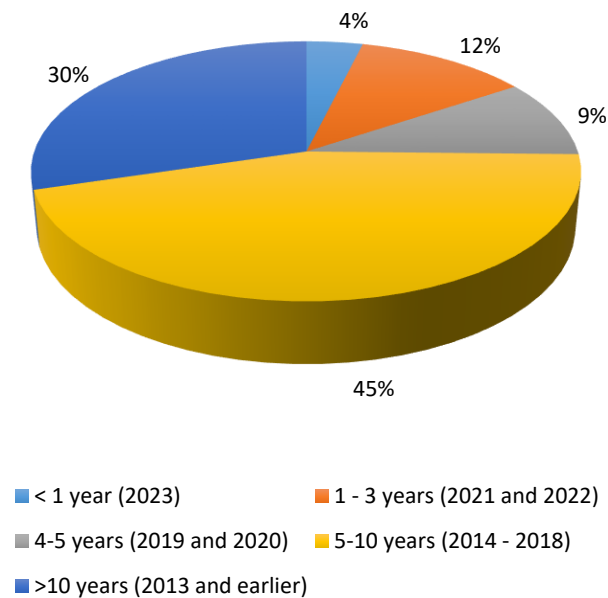


5.5 For the same reason, limited partnerships with legal personality are subject to the vulnerabilities of the collective investment scheme sector as identified in NRA2.

Length of time incorporated

5.6 75% of limited partnerships with legal personality have been incorporated for more than 5 years, with 30% having been incorporated for more than 10 years.

Figure 83: Limited partnerships with legal personality - length of time incorporated

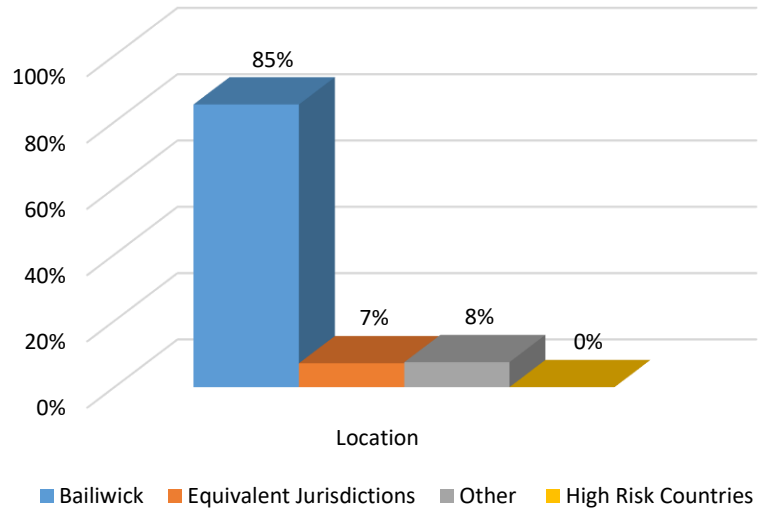


Linked parties– nature/location

5.7 All but 2 limited partnerships with legal personality have corporate partners. The

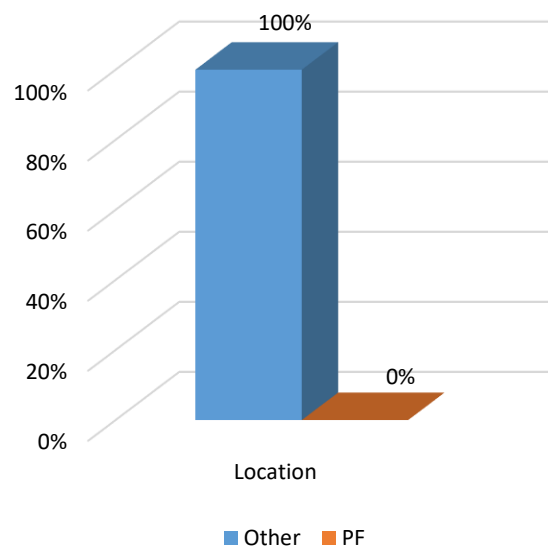
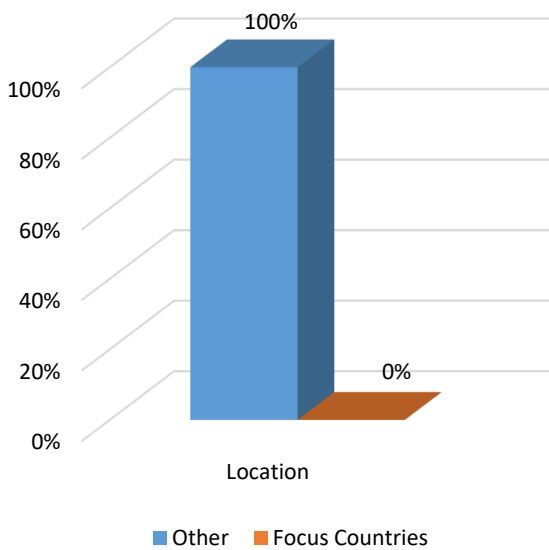
vast majority of partners are located in the Bailiwick. Those outside the Bailiwick are more or less equally divided between those in equivalent and non-equivalent jurisdictions, with none in high-risk jurisdictions.

Figure 84: Limited partnerships with legal personality: partners - locations



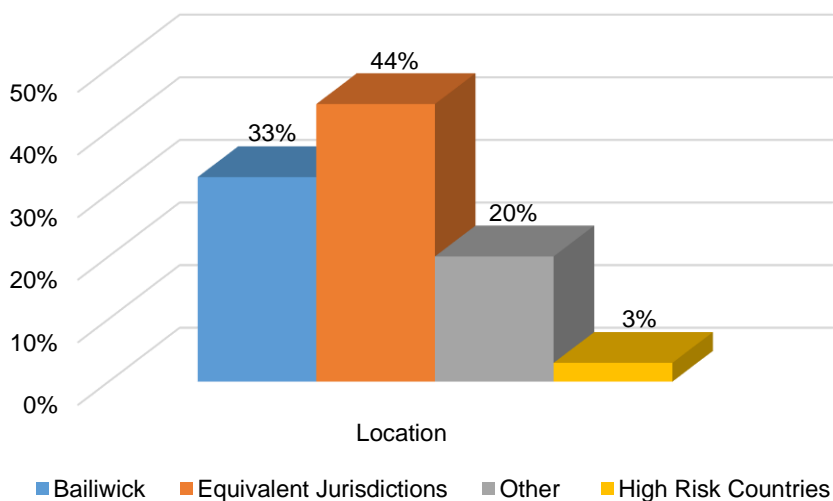
5.8 Further analysis shows that no limited partnerships with legal personality have overseas partners located in TF focus countries or countries that are proliferation hubs.

Figures 85 and 86: Limited partnerships with legal personality: partners - connection to TF focus countries and PF hubs



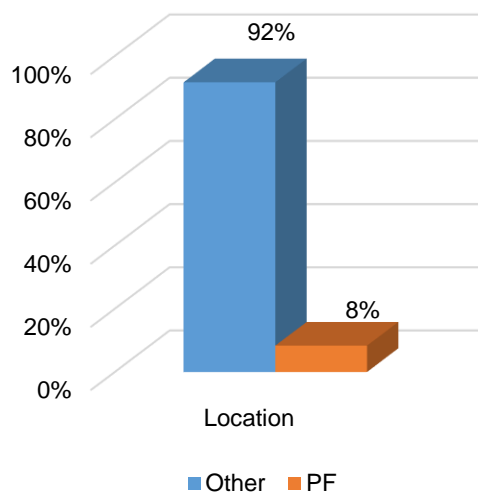
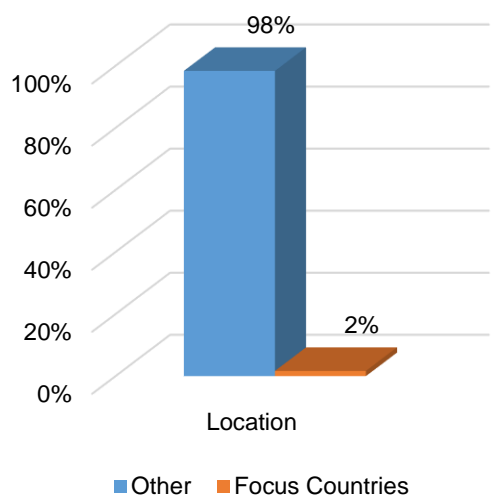
5.9 Limited partnerships with legal personality have both natural persons and corporate entities as their beneficial owners. Where beneficial owners are natural persons, the majority are located in the Bailiwick or equivalent jurisdictions, but 20% are located in non-equivalent jurisdictions and 3% are in high-risk countries.

Figure 87: Limited partnerships with legal personality: natural person beneficial owners - locations



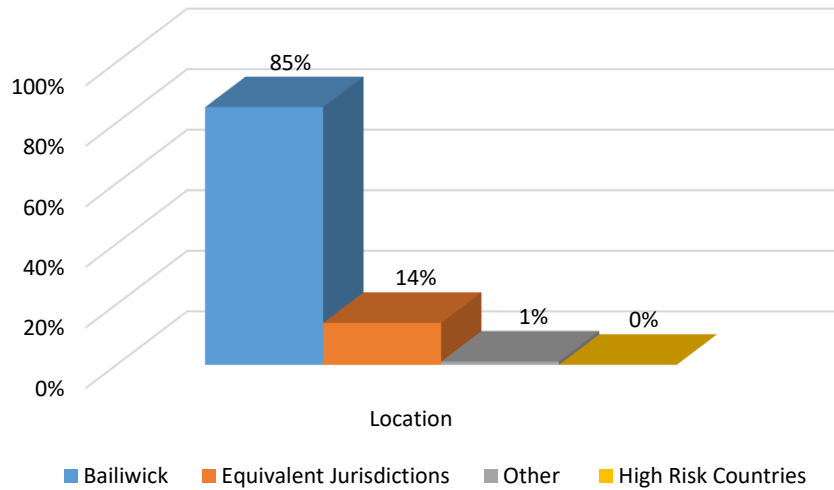
5.10 Further analysis shows that while the number and proportion of natural beneficial owners of limited partnerships with legal personality that are located in TF focus countries or countries that are proliferation hubs is higher than with other forms of legal person, it is still low or negligible.

Figures 88 and 89: Limited partnerships with legal personality: natural person beneficial owners - connection to TF focus countries and PF hubs



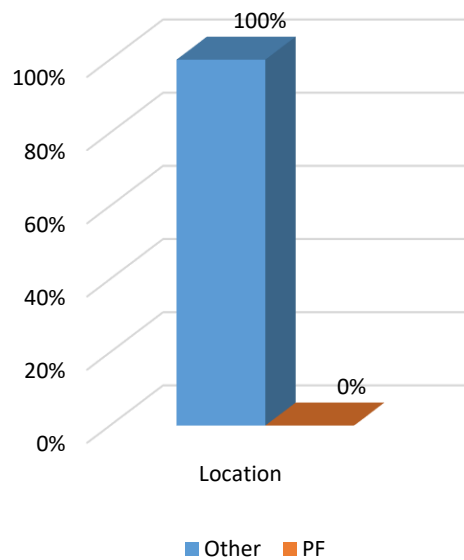
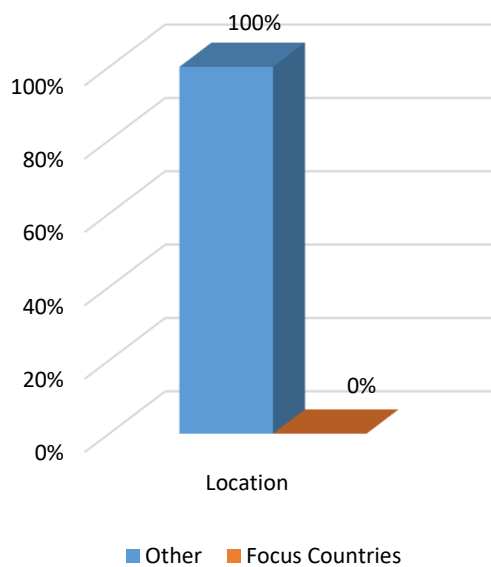
5.11 As regards corporate beneficial owners, a higher proportion are located in the Bailiwick or equivalent jurisdictions, with a very small proportion located in non-equivalent jurisdictions and none in high-risk countries.

Figure 90: Limited partnerships with legal personality: corporate beneficial owners - locations



5.12 Further analysis shows that no limited partnerships with legal personality have corporate beneficial owners that are located in TF focus countries or countries that are proliferation hubs.

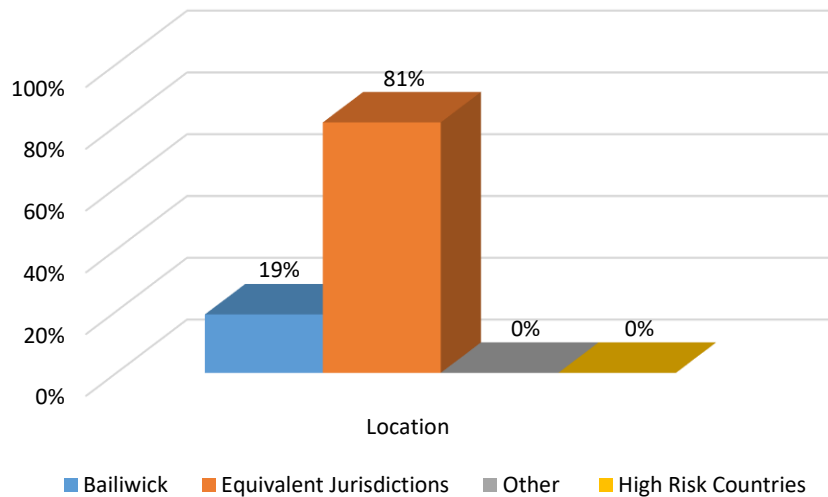
Figures 91 and 92: Limited partnerships with legal personality: natural person beneficial owners - connection to TF focus countries and PF hubs



Subsidiaries

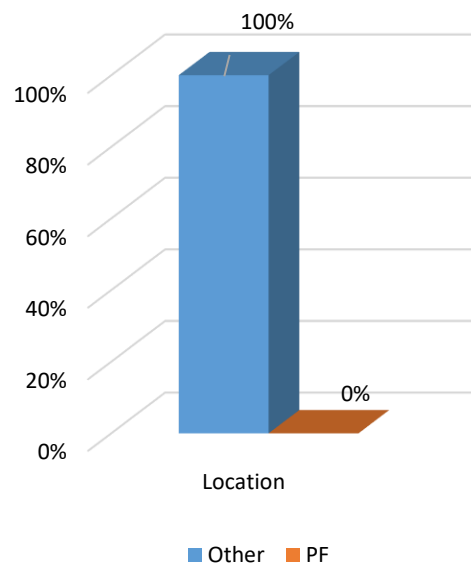
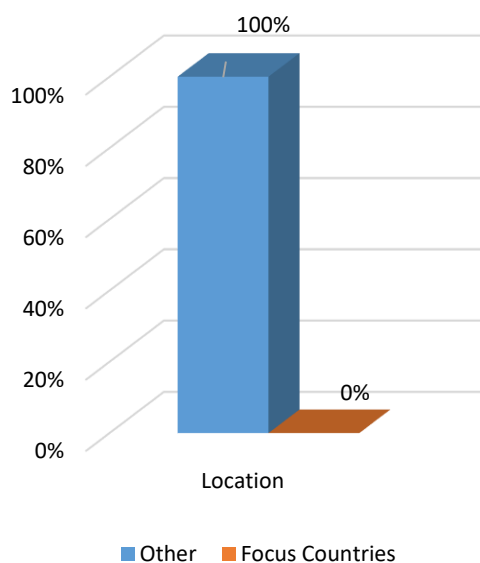
5.13 6% (37) of limited partnerships with legal personality have subsidiaries. These are all located in the Bailiwick or equivalent jurisdictions, and there are none in in focus countries or countries that are proliferation hubs.

Figure 93: Limited partnerships with legal personality: subsidiaries - locations



5.14 Further analysis shows that no limited partnerships with legal personality have subsidiaries that are located in TF focus countries or countries that are proliferation hubs.

Figures 94 and 95: Limited partnerships with legal personality: subsidiaries - connection to TF focus countries and PF hubs



Risk ratings

Figure 96: Limited partnerships with legal personality: materiality, inherent vulnerabilities, and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Less materiality by number, significant materiality by value of underlying assets	<p>Cross border activities where partners or underlying investors are outside the Bailiwick.</p> <p>Assets located outside the Bailiwick.</p>	<p>Their establishment requires registration.</p> <p>Most are used in the collective investment scheme sector and are either authorised or registered by the GFSC or connected to a scheme which is so subject to similar vulnerabilities and mitigants as companies which are collective investment schemes.</p> <p>Administered by GFSC licensee supervised for compliance with AML/CFT/CFP obligations.</p> <p>Engagement of other GFSC licensed persons providing banking and professional advisory services (e.g. tax, legal or accountancy) supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership.</p> <p>GFSC licensed administrators and other licensees highly knowledgeable and professional.</p>

5.15 The inherent money laundering risk of limited partnerships with legal personality is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.

- 5.16 The inherent terrorist financing risk of limited partnerships with legal personality is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 5.17 The inherent proliferation financing risk of limited partnerships with legal personality is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

6. FOUNDATIONS

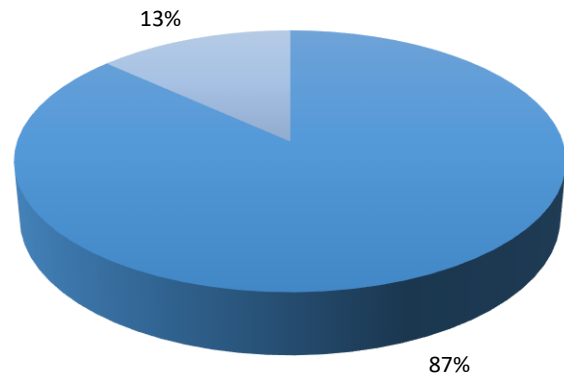
Overview

- 6.1 Foundations are typically used for holding or administering assets, or for philanthropic purposes. They are similar to other forms of legal person in that they have legal personality separate from the parties who create them (i.e. their founders), and they have officials with functions that correspond to those of directors or general partners. However, they do not have persons with ownership rights equivalent to members or partners, and instead have beneficiaries. These may be persons who are individually named or who come within a specified category, and may be enfranchised or disenfranchised, i.e. respectively with or without the right to information about the foundation. In the event that a foundation has disenfranchised beneficiaries or is established for a purpose for which there are no beneficiaries, it must appoint a guardian to ensure that the foundation is run in a way that is compatible with the interests of those beneficiaries or that purpose as the case may be.
- 6.2 Control of foundations is by their Counsellors, whose identity (and that of any guardian that may be appointed) is recorded on a public central register. As foundations do not have parties with ownership rights in the same way as other forms of legal person they do not maintain registers of interests, but any payments to beneficiaries must be included in their records of financial transactions, which they are obliged to keep at a registered address in Guernsey. In addition, details of beneficial owners are kept on a central register.

Number and profile

- 6.3 There are 113 foundations registered with the Guernsey Registry. None are supervised by the GFSC, 87% (98) are administered by a GFSC licensee, and 13% (15) are non-licensee administered. None are resident agent exempt. Approximately 75% are related to asset holding. This is primarily in respect of asset protection and inheritance planning for named individuals (usually family members), as distinct from being used for investments or pure asset holding in the same way as companies. Nevertheless, some high asset values can be involved. However, overall the proportion of assets held within foundations is very low when compared to other legal persons and legal arrangements, as foundations are only used occasionally, mainly when a business relationship involves a client from a civil law jurisdiction. The remaining 25% are used for philanthropic or charitable purposes, so are subject to the vulnerabilities of the NPO sector as described in NRA2.

Figure 97: Foundations - supervision

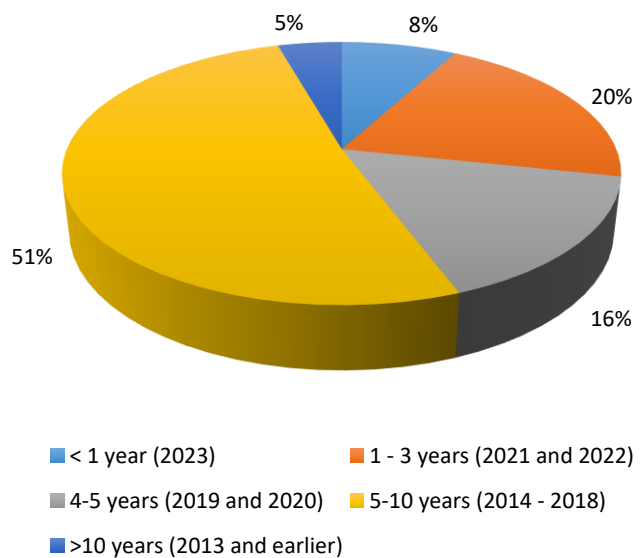


Length of time incorporated

■ Administered by Licensee ■ Non-Licensee Administered

6.4 There is an approximate even split between foundations that have been incorporated for more than 5 years and those incorporated for less than that time. The proportion established for more than 10 years is small, reflecting the fact that foundations have only existed in Guernsey since 2013.

Figure 98: Foundations - age since incorporation

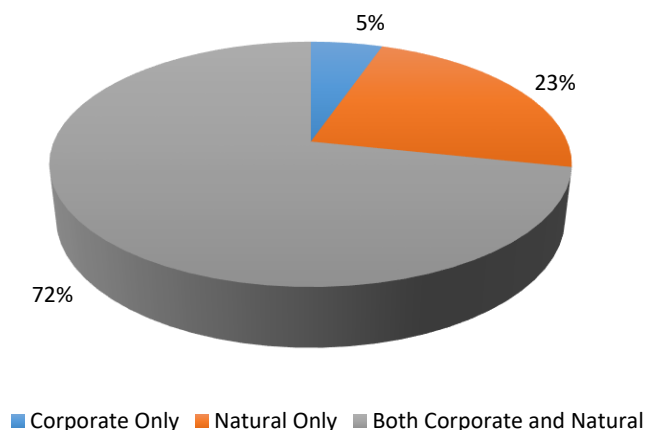


Linked parties– nature/location

6.5 72% of foundations have a combination of both natural and corporate Counsellors and/or guardians. 23% of foundations have only natural Counsellors and/or guardians, with 5% having just corporate parties. Where there is a combination, the

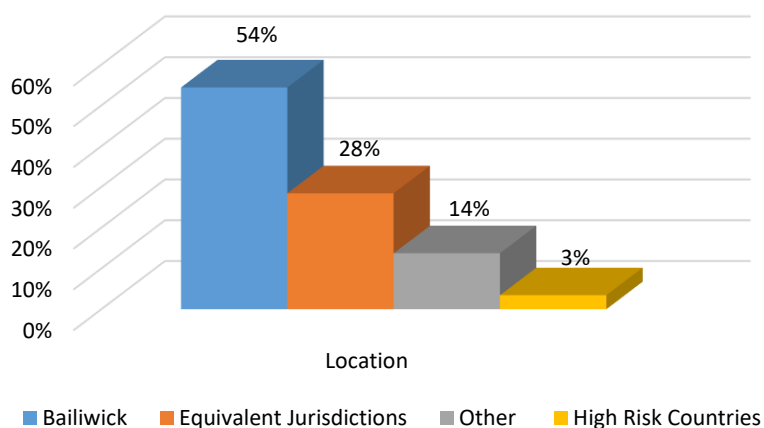
most common profile is that of a corporate local party combined with a natural person overseas. The population of overseas based Counsellors or guardians is higher among natural persons than it is among corporates. All foundations with overseas based counsellors or guardians are administered by a GFSC licensee.

Figure 99: Foundations - counsellors and guardians - type



6.6 Where foundations have overseas based Counsellors or guardians, these are primarily based in equivalent jurisdictions, with a small proportion in non-equivalent jurisdictions or jurisdictions that are high risk.

Figure 100: Foundations - natural and corporate counsellors and guardians - locations



6.7 Further analysis shows that that the number and proportion of foundation Counsellors or guardians located in TF focus countries or countries that are proliferation hubs is negligible.

Figure 101: Foundations - natural and corporate counsellors and guardians - connections to TF focus countries

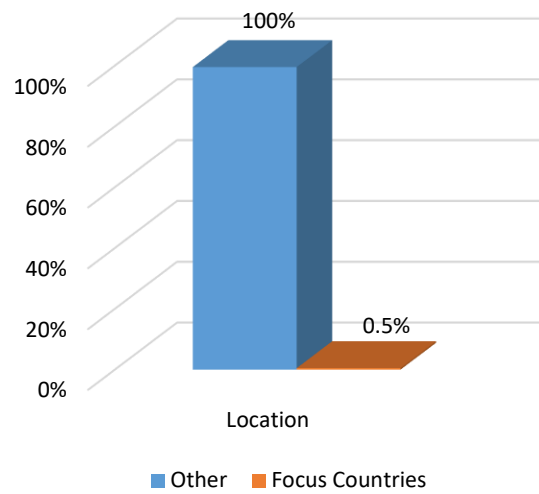
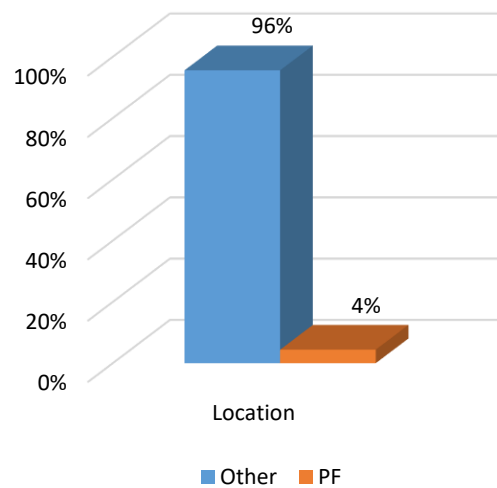
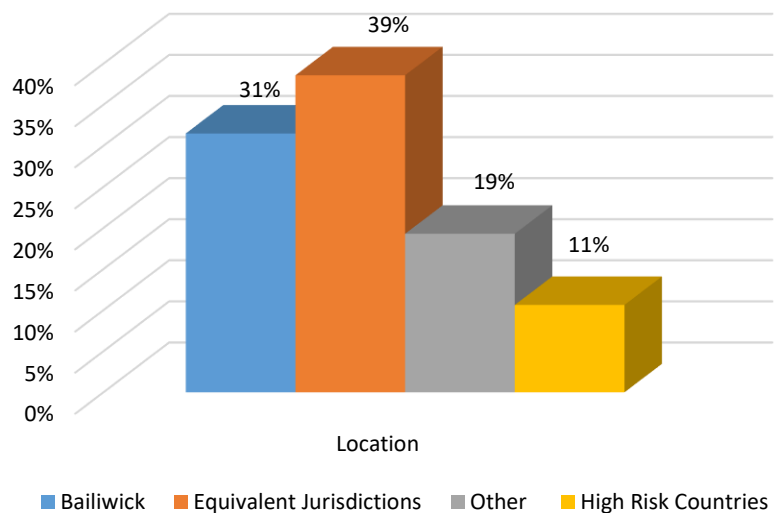


Figure 102: Foundations - natural and corporate counsellors and guardians - connections to PF hubs



6.8 84% (254) of the beneficial owners of foundations on the register are natural persons. The majority are located in the Bailiwick or equivalent jurisdictions, but 19% are located in non-equivalent jurisdictions and 11% are in high-risk countries.

Figure 103: Foundations - natural person beneficial owners - locations



6.9 Further analysis shows that the number and proportion of foundation beneficial owners located in TF focus countries or countries that are proliferation hubs is very low or negligible.

Figure 104: Foundations - natural person beneficial owners - connections to TF focus countries

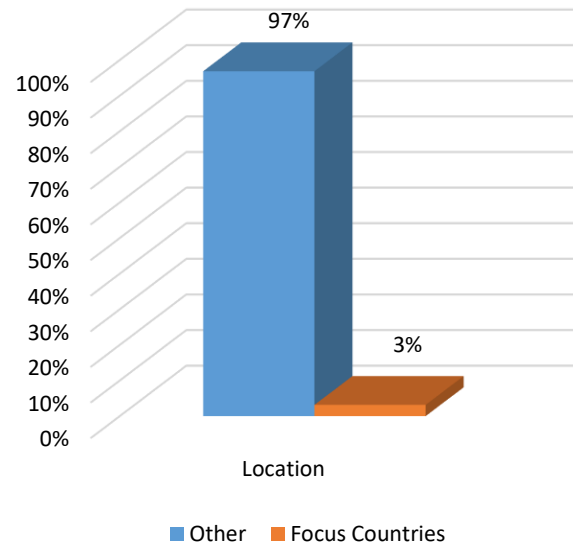
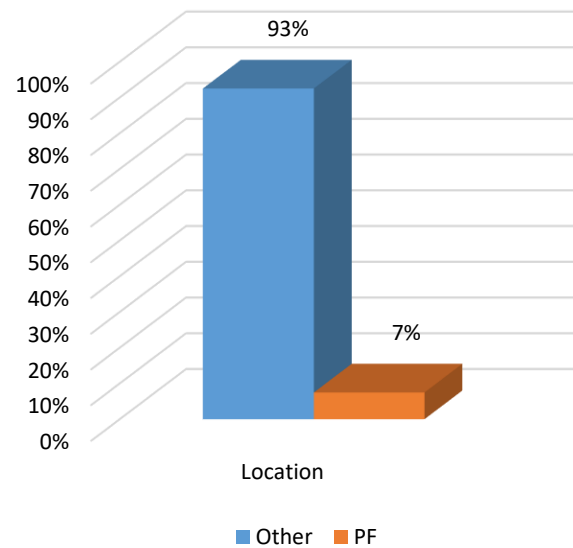


Figure 105: Foundations - natural person beneficial owners - connections to PF hubs



6.10 As regards corporate beneficial owners, the majority are located in the Bailiwick, with a small number in equivalent jurisdictions. None are located in non-equivalent jurisdictions or high-risk countries. Equally, no foundations have corporate beneficial owners in focus countries or countries that are proliferation hubs.

Figure 106: Foundations - corporate beneficial owners - locations

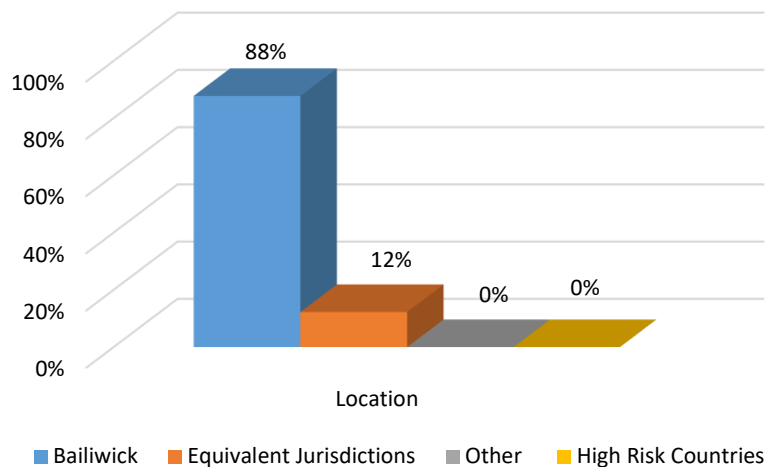


Figure 107: Foundations - corporate beneficial owners - connections to TF focus countries

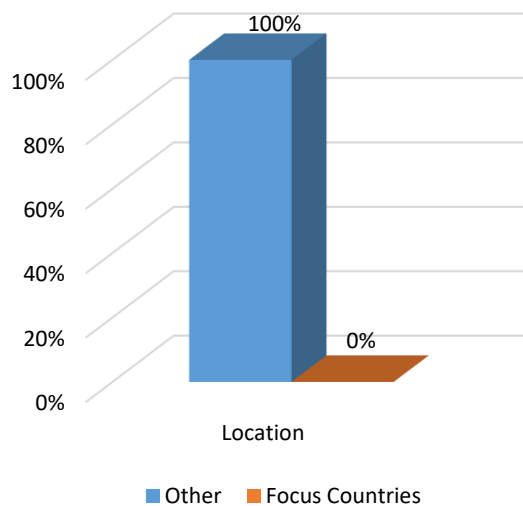
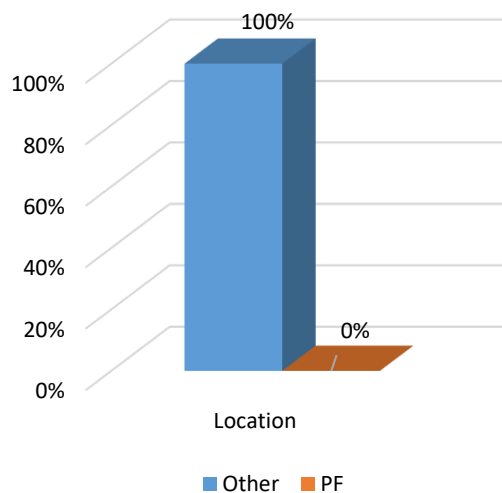


Figure 108: Foundations - corporate beneficial owners - connections to PF hubs



Risk ratings

Figure 109: Foundations: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
<p>Very much lower materiality by number, reasonable materiality by value of assets</p>	<p>Cross border activities where councillors, guardians or beneficiaries are outside the Bailiwick.</p> <p>Assets may be located outside the Bailiwick.</p>	<p>Vast majority administered or otherwise connected to GFSC licensee supervised for compliance with AML/CFT/CFP obligations.</p> <p>Beneficial ownership information provided to central register.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Engagement of other GFSC licensed persons providing banking and professional services (e.g. tax and legal) supervise for compliance with the AML/CFT/CFP framework who hold beneficial ownership information.</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

- 6.11 The inherent money laundering risk of foundations is assessed as **Medium**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium Lower**.
- 6.12 The inherent terrorist financing risk of foundations is assessed as **Medium Lower** with regard to foreign terrorist activity, and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risks

are assessed as **Lower** with regard to foreign terrorist activity, and **Very Much Lower** with regard to domestic terrorist activity.

- 6.13 The inherent proliferation financing risk of foundations is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

7. LIMITED LIABILITY PARTNERSHIPS

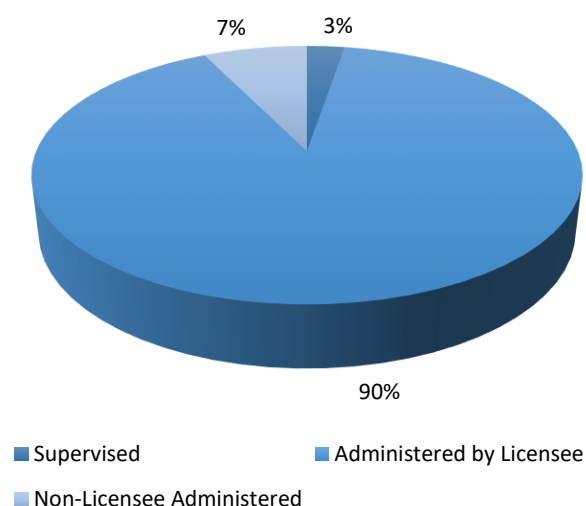
Overview

- 7.1 Both control and ownership of limited liability partnerships is with their members, whose identity is recorded on a central register, as are details of their beneficial owners. The register of members is publicly available.
- 7.2 Limited liability partnerships were introduced primarily to provide an additional structure through which to conduct business, particularly for professional persons, but they are now more commonly used for other purposes, such as acting as the general partner of a limited partnership.

Number and profile

- 7.3 There are 151 limited liability partnerships registered with the Guernsey Registry. 90 % are administered by a GFSC licensee, 7% are non-licensee administered and 3% supervised by the GFSC. Most limited liability partnerships administered by a GFSC licensee are used in private equity in the collective investment scheme sector as a general partner of Guernsey and non-Guernsey limited partnerships. These limited partnerships will also be under the administration of the same GFSC licensee, enhancing its oversight and monitoring of the activities of the limited liability partnership as general partner of the limited partnership.

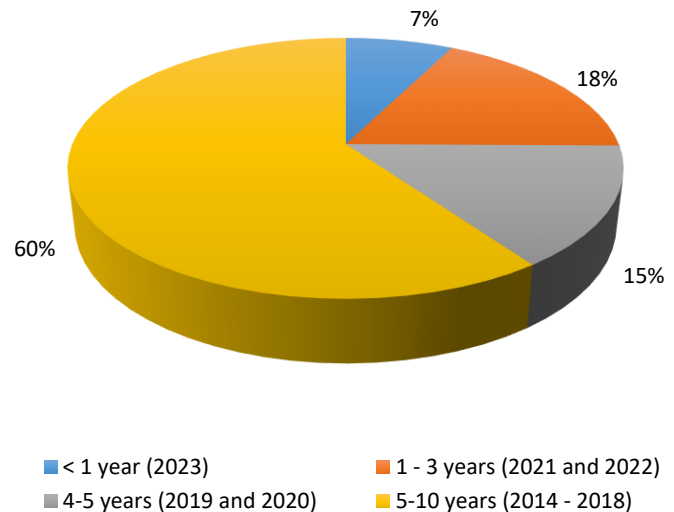
Figure 110: Limited liability partnerships - supervision



Length of time incorporated

7.4 60% of limited liability partnerships have been incorporated for more than 5 years. The absence of any that have been established for more than 10 years reflects the fact that limited liability partnerships have only existed in Guernsey since 2014.

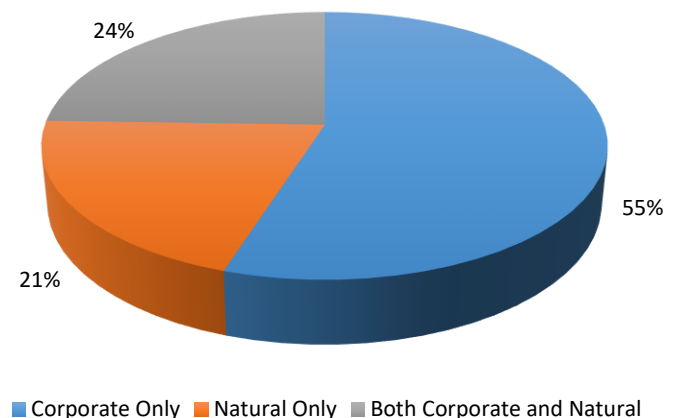
Figure 111: Limited liability partnerships - age since incorporation



Linked parties– nature/location

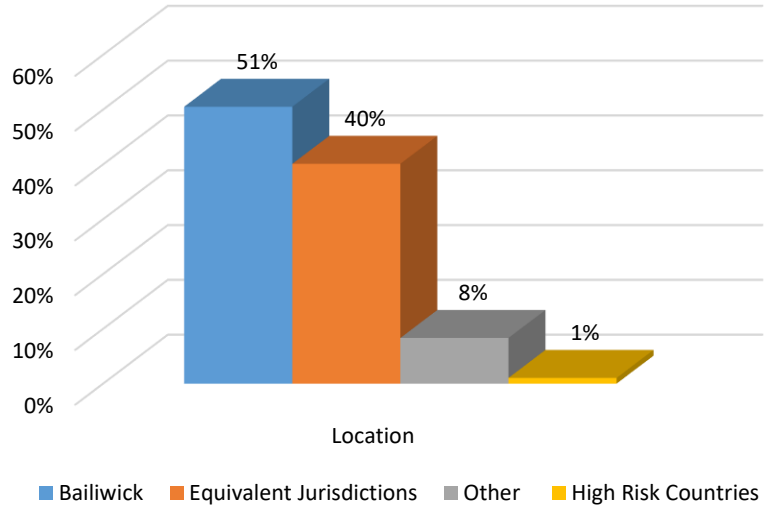
7.5 Limited liability partnerships may have both natural and corporate partners. 55% of limited liability partnerships have only corporate members, 21% have only natural members, and 24% have a combination of both. Where there is a combination, the most common profile is that of a natural local member combined with either a corporate or natural member overseas.

Figure 112: Limited liability partnerships: members - type



7.6 Where limited liability partnerships have overseas members, these are primarily based in equivalent jurisdictions, with a small proportion in non-equivalent jurisdictions or jurisdictions that are high risk.

Figure 113: Limited liability partnerships: natural and corporate members - locations



7.7 Further analysis shows that that no limited liability partnerships have members located in TF focus countries or countries that are proliferation hubs.

Figure 114: Limited liability partnerships: Natural and corporate members - connections to TF focus countries

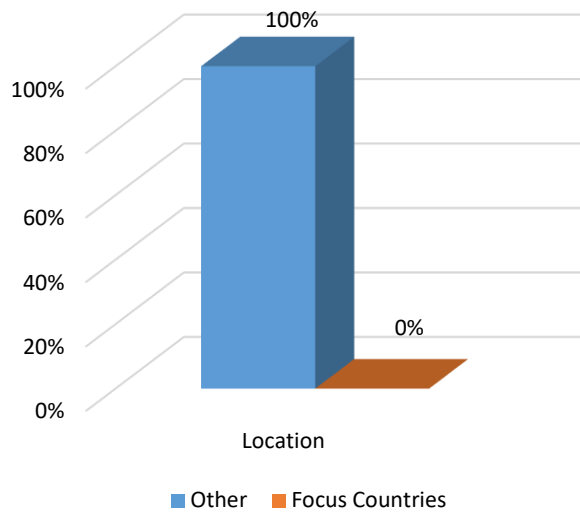
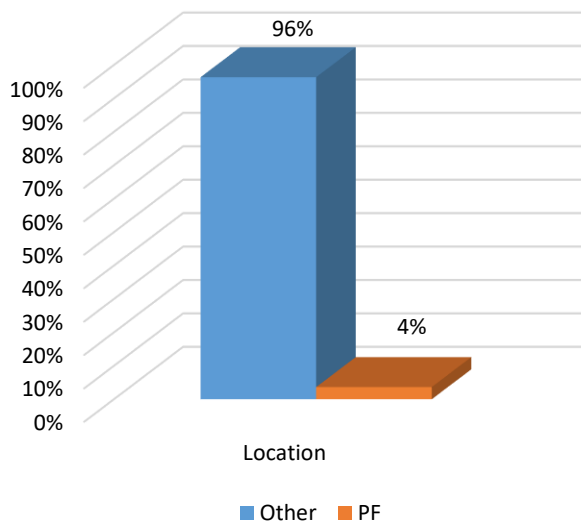
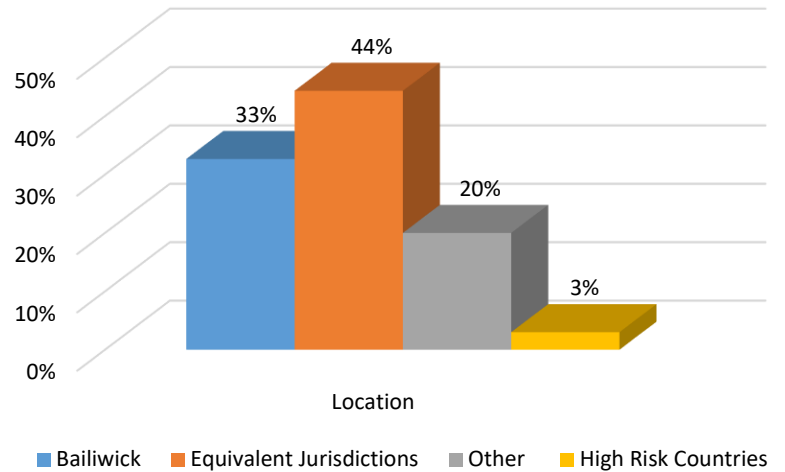


Figure 115: Limited liability partnerships: natural and corporate members - connections to PF hubs



7.8 84% (254) of the beneficial owners of limited liability partnerships on the register are natural persons. The majority are located in the Bailiwick or equivalent jurisdictions, but 20% are located in non-equivalent jurisdictions and 3% are in high-risk countries.

Figure 116: Limited liability partnerships: natural person beneficial owners - locations



7.9 Further analysis shows that the number and proportion of members located in TF focus countries or countries that are proliferation hubs is very low.

Figure 117: Limited liability partnerships: natural person beneficial owners - connections to TF focus countries

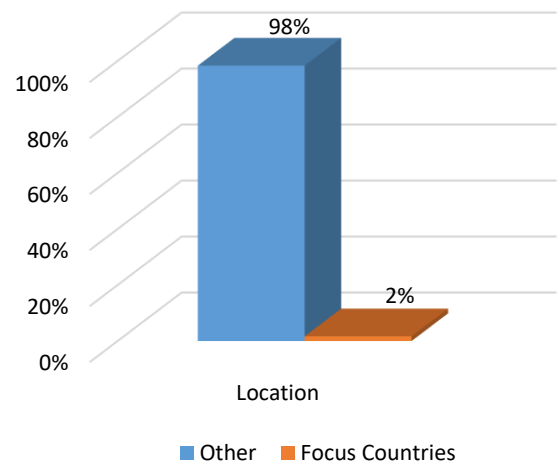
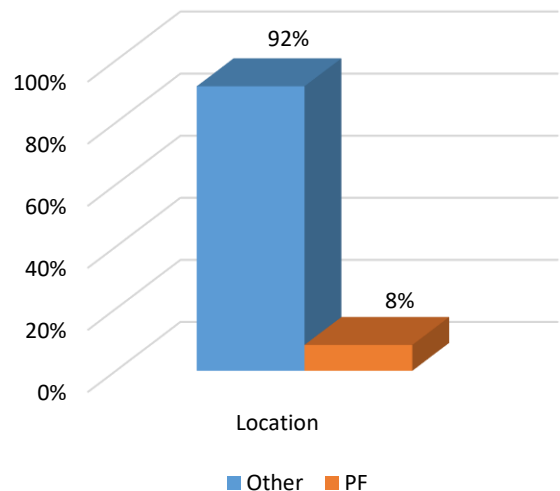


Figure 118: Limited liability partnerships: natural person beneficial owners - connections to PF hubs



7.10 As regards corporate beneficial owners, the majority are located in the Bailiwick, with a small number in equivalent jurisdictions. A negligible proportion is located in non-equivalent jurisdictions and there are none in high-risk countries. Equally, no limited liability partnerships have corporate beneficial owners in TF focus countries or countries that are proliferation hubs.

Figure 119: Limited liability partnerships: corporate person beneficial owners - locations

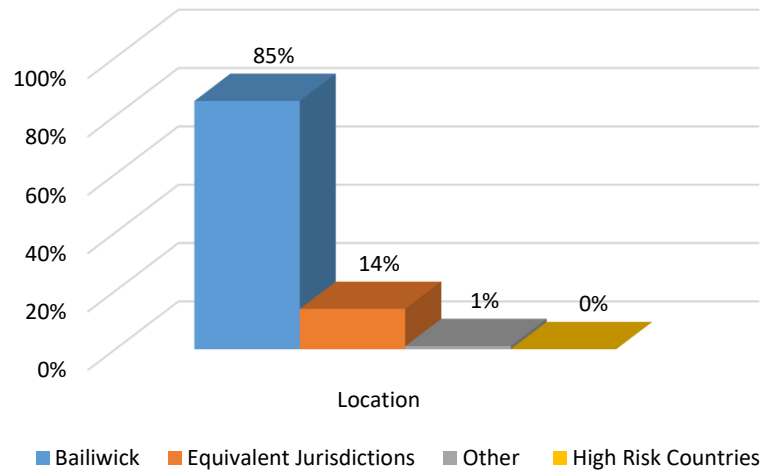


Figure 120: Limited liability partnerships: corporate person beneficial owners - connections to TF focus countries

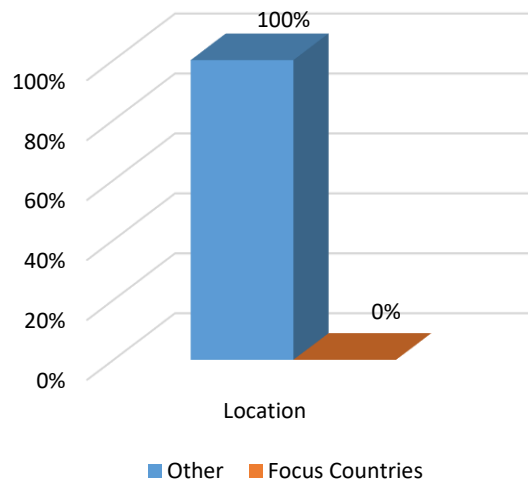
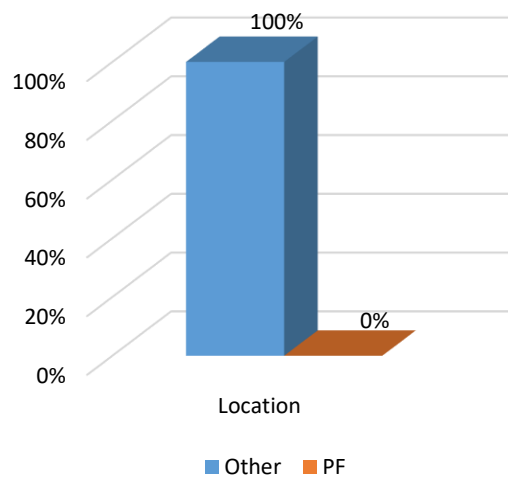


Figure 121: Limited liability partnerships: corporate person beneficial owners - connections to PF hubs



Risk ratings

Figure 122: Limited liability partnerships: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
<p>Very much lower materiality by number, reasonable materiality by value of assets</p>	<p>Cross border activities where members and/or beneficial owners are outside the Bailiwick.</p> <p>Assets held by a limited partnership managed by a limited liability partnership located outside the Bailiwick.</p> <p>Assets located outside the Bailiwick.</p>	<p>Vast majority administered or otherwise connected to GFSC licensee supervised for compliance with AML/CFT/CFP obligations.</p> <p>Many used to provide professional services in areas subject to fit and proper checks by the GFSC, and subject to its ongoing oversight (e.g. professional services and general partners of limited partnerships)</p> <p>Basic and beneficial ownership information provided to the Registrar.</p> <p>Provision of information on beneficial ownership and activities to Revenue Service.</p> <p>Engagement of other GFSC licensed persons providing banking, legal services etc supervised for compliance with AML/CFT/CFP framework who hold beneficial ownership information.</p> <p>Licensed TCSPs, administrators and other licensees highly knowledgeable and professional.</p>

- 7.11 The inherent money laundering risk of limited liability partnerships is assessed as **Medium**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium Lower**.
- 7.12 The inherent terrorist financing risk of limited liability partnerships is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risks are assessed as **Lower** with regard to foreign terrorist activity, and **Very Much Lower** with regard to domestic terrorist activity.
- 7.13 The inherent proliferation financing risk of limited liability partnerships is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

8. FOREIGN LEGAL PERSONS

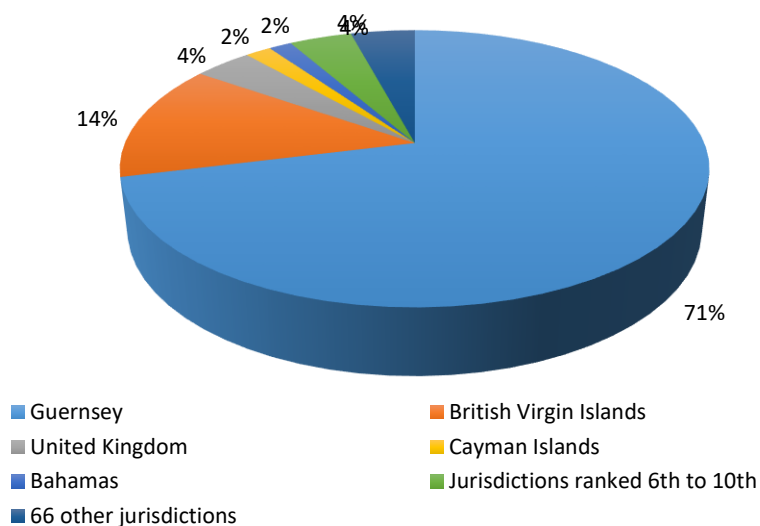
Overview

8.1 Foreign legal persons may be linked to the Bailiwick either because they are administered by the TCSP sector or because they conduct transactions, hold bank accounts or own real or personal property within the Bailiwick. In practice, there is considerable overlap between these two categories because the majority of foreign legal persons owning property or transacting in the Bailiwick are administered by a TCSP.

Profile

8.2 There are 4,815 foreign legal persons administered by TCSPs, of which 4,785 are companies. Corporate services are provided to a very small number of foundations; mainly Panama (11) and Liechtenstein (9). Nearly half of these companies are incorporated in the British Virgin Islands. The majority are incorporated in countries which are regarded as financial centres which is consistent with the Bailiwick's cross-border business patterns. This chart shows the breakdown by country of incorporation of all companies administered by licensed TCSPs.

Figure 123: Breakdown by country of incorporation of all companies administered by licensed TCSPs



8.3 More than a quarter of the value of assets administered in the TCSP sector are held within foreign legal persons, mainly in private company shares but also cash/liquid securities and to some extent real estate. These assets are predominantly located outside the Bailiwick. The reasons for using a foreign legal person include meeting foreign investment requirements.

- 8.4 In the case of most TCSP administered foreign legal persons, the TCSP will be providing the legal person with directors meaning that the activities of the legal person are controlled and monitored from the Bailiwick which reduces the risk of money laundering, terrorist financing and proliferation financing. Furthermore, a large number of these legal persons will be owned by a trust, usually a Guernsey law discretionary trust where the same administering TCSP is the trustee which enhances the oversight and control the TCSP has over the assets and activities of the foreign legal person. In undertaking their activities foreign legal persons are likely to engage with other GFSC licensed persons providing services such as banking, investment and legal services.
- 8.5 The beneficial ownership profile of administered foreign legal persons will largely reflect that of the TCSP sector in NRA2, namely that three-quarters of beneficial owners resident in Bailiwick or equivalent jurisdictions and 20% from other and higher risk jurisdictions. As the use and value of assets held within foreign legal persons are similar to GFSC licensed administered Bailiwick companies engaged in asset holding/management the level of risks is assessed as the same.

Risk ratings

Figure 124: Foreign legal persons: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Very significant materiality by value and materiality by number	May be used as part of complex structuring of private wealth involving multiple ownership vehicles.	Administered by licensees supervised for compliance with AML/CFT/CFP framework who hold beneficial ownership information.
	Officers and beneficial owners are outside the Bailiwick.	Provision of information on beneficial ownership and activities to Revenue Service.
	Assets located outside of the Bailiwick.	Engagement of other GFSC licensed persons providing banking, legal, accountancy services etc. who are supervised for compliance with AML/CFT/CFP framework and who hold beneficial ownership information.

Licensed TCSPs and other licensed persons highly knowledgeable and professional.

- 8.6 The inherent money laundering risk of foreign legal persons is assessed as **Much Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Higher**.
- 8.7 The inherent terrorist financing risk of foreign legal persons is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 8.8 The inherent proliferation financing risk of foreign legal persons is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

PART II: LEGAL ARRANGEMENTS

9. OVERVIEW

- 9.1 Under the law of Guernsey, three types of legal arrangement can be formed. These are trusts, limited partnerships without legal personality and general partnerships. All three are subject to dedicated commercial legislation that deals with ownership and related issues such as legal rights and liabilities. Trusts are by far the most common type of legal arrangement created in the jurisdiction. There is currently no generally applicable legislation permitting the formation of legal arrangements in Alderney or Sark.⁹
- 9.2 The well-established prudential and AML/CFT/CFP regimes outlined in NRA2 in the context of legal persons apply to legal arrangements in the same way. In other words, a person who is acting by way of business establishing or administering a domestic or foreign legal arrangement, or for acting as an official of a legal arrangement (e.g. a trustee or a partner), must both be licensed and supervised by the GFSC and comply with the AML/CFT/CFP framework.
- 9.3 Therefore, the only legal arrangements outside the prudential and AML/CFT/CFP supervisory frameworks are those where services in connection with the establishment or administration of the legal arrangement are provided on a voluntary basis. In practice this generally means arrangements with which the person providing the services has a personal link, either because the legal arrangement has been established for the purposes of running that person's business or because the person is acting in the context of a family or social relationship (e.g. a parent holding property on behalf of a child). These unregulated trustees and partners are subject to beneficial ownership information requirements about the legal arrangement which are equivalent to those applicable to a licensed TCSP.
- 9.4 With one exception, the legal framework applies to both domestic and foreign legal arrangements in the same way. This reflects the fact that, in practice, the precise law which is applicable to a legal arrangement makes little difference to that legal arrangement's vulnerability to money laundering, terrorist financing or financing the proliferation of weapons of mass destruction. The key factor for these purposes is the jurisdiction where it is administered or controlled. The one exception is a series of amendments to the Proceeds of Crime Law to address FATF standards which are specifically jurisdiction-specific (i.e. legal arrangements subject to the trust law of

⁹Historically a very small number of individual trusts has been created by statute in Alderney and Sark for charitable or other public purposes (e.g. running a parish hall). They are typically under the control of public officials and are not considered to present any money laundering risks.

Guernsey in the case of the Bailiwick) requiring the trustee or partner of a Guernsey legal arrangement to hold information on the identity of other regulated agents and service providers to the arrangement.

- 9.5 Trusts under Guernsey law may be, and in practice predominantly are, discretionary trusts where the disposition of trust property is at the discretion of the trustee i.e. the beneficiaries have no fixed rights to any trust property but only the right to be considered by the trustees for the purposes of exercising their discretion¹⁰.
- 9.6 Many discretionary trusts are created as part of a structure for holding or managing assets. Guernsey law discretionary trusts are also used for pension or benefit schemes, which are described as retirement annuity trusts, occupational pension schemes and employee benefit trusts. These schemes require approval from the Revenue Service (for members to be able to benefit by receiving deductions for contributions paid) or recognition (in order that the income of the pension scheme fund may be exempt from tax) or recognition under income tax legislation which is where these terms are largely derived. These types of trusts are used for domestic and international pension and benefit provision. Because of their technical nature these schemes invariably have a professional trustee licensed by the GFSC to ensure the scheme meets its objectives and where applicable operates within the parameters of the approval from the Revenue Service.
- 9.7 Schemes which have a licensed TCSP as their trustee are subject to supervision by the GFSC which closely engages with the Revenue Service over the operation of this sector. Pension schemes registered with the GFSC as of 30 June 2023 represent assets worth £12 billion for 111,000 members (which includes active, deferred pension/benefit and pensioners).
- 9.8 A Guernsey law trust may also be created as a non-charitable purpose trust, created for the purposes of providing a pension or for an employer to provide benefits to employees.
- 9.9 These different types of trusts are looked at separately below.

¹⁰ While there are examples of fixed interest trusts and unit trusts being created in the jurisdiction, the numbers of these trusts are so low as to make them insignificant from both a statistical and a risk perspective.

- 9.10 In 2023 the Revenue Service commenced a thematic review of the 134 (based on 2021 data) trusts that had a trustee acting not by way of business (unregulated trusts). This review included requiring the settlors and trustees to provide detailed information concerning the reason for trust, why an unregulated trustee had been appointed, sight of the trust deed and latest financial statements.
- 9.11 The Revenue Service review has determined that the individuals who have settled assets into such trusts are largely made up of an ageing demographic, with the average age of the settlors being 71 years old. The majority of these trusts have been established to provide for family estate planning (where it would seem the trust pre-dated the change in Guernsey's inheritance law).
- 9.12 It was also established that there was robust record keeping by the trustees. Given the nature of the relationship the trustees were able to provide adequate, accurate and current information concerning the beneficial owners of the trust, together with the financial position (which owing to the nature of the majority of these trusts there were only a minority holding income generating assets). A significant number of the trustees acting not by way of business appear to have had a financial services background whereby, they have, either at some point in the past or currently, held senior positions in a fiduciary capacity, a legal capacity, or an actuarial capacity.
- 9.13 The data held by the Revenue Service has shown a declining trend of trusts where the trustee acts not by way of business. This is not unexpected given the prominent reason for the trusts related to historic estate planning issues and the aging demographic of the settlors of such trusts, suggest that when trusts are established now they will more often than not appoint a trust and corporate service provider to act as trustee. To conclude, the findings of this detailed analysis have confirmed that these trusts are low risk and historic in nature and the numbers of individuals involved are consistently reducing on an annual basis.
- 9.14 Most trusts and limited partnerships without legal personality are involved in cross-border business relationships in respect of the location of the settlor, beneficiaries and trust assets and distributions, in relation to private wealth management, pensions and collective investment schemes. As with legal persons, legal arrangements that are involved in cross-border activity are nearly always linked to a TCSP or other administrator subject to the AML/CFT/CFP framework, licensed and supervised for compliance with that framework by the GFSC.

9.15 Most general partnerships have a domestic focus and are created for the purposes of running local businesses to serve the needs of the community. These forms of legal arrangement are therefore less likely to be linked to a TCSP or other administrator subject to the AML/CFT/CFP framework but will ordinarily engage other GFSC licensed persons providing banking, investment, and professional advisory services (e.g. tax, legal or accountancy) who are supervised for compliance with AML/CFT/CFP obligations by the GFSC.

10. DISCRETIONARY TRUSTS (NON-PENSION etc./EBTs)

Structure

- 10.1. Trusts have been recognised in Guernsey statutory law since the late 1980s following the enactment of the Trusts (Guernsey) Law, 1989, which has since been replaced by the Trusts (Guernsey) Law, 2007 (the **Guernsey Trust Law**). Discretionary trusts have the same basic structure as any other type of trust, with the difference being the rights of the beneficiaries.
- 10.2. The key feature of a discretionary trust, like other forms of trust, is the separation of legal and beneficial interests in property with the legal interests being held by trustees for the benefit of one or more other persons (each a beneficiary) and/or for a specified purpose. The settlor is the person who creates the trust by transferring ownership of their property to a trustee. The settlor may be a natural or legal person.
- 10.3. A trust is only valid where the following three elements are met:
 - there is a clear intention by the settlor to divest property to another;
 - the identity of the beneficiaries is clear; and
 - there is certainty over the property held in trust.
- 10.4. A trust can be created orally but it is standard practice for trusts to be created by a written instrument usually entitled a settlement deed or declaration of trust, to formally record the terms of the trust and the powers and duties of the trustees. The deed is also a formal record for verifying the existence and terms of the trust when the trustee is opening accounts for the trust with financial institutions subject to AML/CFT/CFP requirements.
- 10.5. Under the terms of the trust and in accordance with Guernsey Trust Law the settlor may reserve certain powers over the management or administration of the trust, which usually relate to the trustee's or an investment advisor's actions regarding the investment of trust property.
- 10.6. The trustees may be legal or natural persons. They make decisions about trust property, form business relationships in respect of the trust with third parties such as investment advisers and banks; and may bring or defend legal proceedings in respect of the trust. In short, the trustees act in relation to the trust but have no personal rights as trustee to benefit from it except in very limited circumstances (e.g. the payment of professional fees) – the trust property does not form part of the estate

of the trustee and the trustee must manage and administer the trust property for the benefit of the beneficiaries or for the advancement of the trust's purposes.

- 10.7. Trustees, either natural or legal persons, are bound by general fiduciary duties to act in good faith, in accordance with the Guernsey Trust Law and the terms of the trust. They must act in the best interests of the beneficiaries and "en bon pere de famille". They have certain duties to fulfil including ensuring the trust property is under their control, and to preserve and enhance the value of the trust (unless the trust deed contains a provision that excludes this requirement). The trustee is bound by the terms of the trust and the Guernsey Trust Law but may also give consideration to a non-binding letter of wishes setting out how the settlor wishes the trust to be managed and distributed.
- 10.8. Beneficiaries can be legal or natural persons. Beneficiaries may be identified by name but may also be identified by reference to membership of a particular class of persons or to a relationship with a particular person such as the settlor. It is also possible for a trustee or a settlor to be a beneficiary, although it is unusual for the trustee to be a beneficiary because it will usually counter the purpose of establishing the trust.
- 10.9. A discretionary trust may also have a "protector" who may hold certain powers in relation to a trust. Such powers usually relate to the trustees obtaining the protector's consent to certain actions such as the removal or appointment of trustees or beneficiaries, or distributions to beneficiaries. A protector may be a natural or legal person and is usually an adviser or friend of the settlor.

Profile

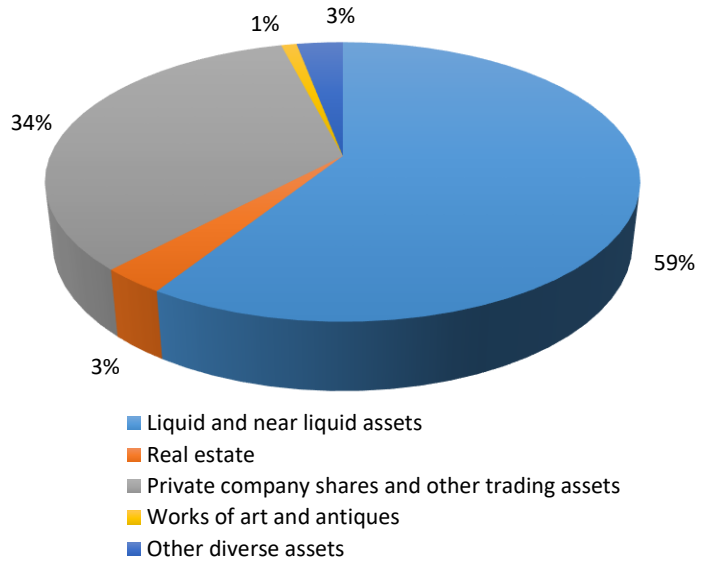
- 10.10. Most discretionary trusts are used in the fiduciary sector usually for private wealth management, protection or succession planning purposes. The most common reasons for using a trust include the following:
- the settlor may wish assets to remain intact after their death rather than form part of their estate to be divided amongst their heirs;
 - the settlor may wish to protect their assets from a creditor or in the event of a family breakdown or dispute;
 - to facilitate effective tax planning in respect of the trust assets; while maintaining Guernsey's position of meeting all international tax transparency requirements through, in many cases, the trustees being required to report the trust under international tax arrangements such as the Common Reporting Standard and US FATCA;

- the settlor may have concerns over the ability of their heirs to manage the assets after the settlor's death;
- the settlor may want the spending by vulnerable beneficiaries controlled;
- forced heirship rules requiring a person's estate to be distributed in a certain way may apply when the settlor wishes to choose to whom to dispose of their assets; and
- a discretionary trust offers privacy and confidentiality as there are no registration or filing obligations in Guernsey, other than those under the Common Reporting Standard and US FATCA and the obligations upon both regulated and unregulated trustees to provide information about a trust to competent authorities. This may be important to a settlor for family security and/or because of political or civil unrest in their own jurisdiction.

10.11. There are 9,332 Guernsey discretionary trusts administered by the licensed TCSP sector (excluding pension trusts and employee benefit trusts which are detailed separately below). The number of trusts has steadily reduced over the last five years which reflects a trend towards servicing fewer, higher value trusts, as well as older trusts reaching the end of life and dissipation of trust assets. The total value of assets held in trusts is substantial. Data is collected for supervisory purposes on a firm-by-firm basis and for identifying trends, but it is not published. This is because it has not been gathered in a manner for publication as a consolidated figure, and because different accounting methodologies have been applied, often without an independent valuation source which means that any consolidated figure cannot be relied upon as a true reflection of the total value of assets held in trust.

10.12. There are no restrictions on the types of assets a discretionary trust may hold providing it is lawful. In practice discretionary trusts can hold a variety of assets ranging from cash and near liquid assets, real estate, private company shares, to art, aircraft and yachts. More than half of the assets in trust are in liquid or near liquid assets (i.e marketable securities), the acquisition of which would be facilitated by other regulated parties subject to and supervised for compliance with AML/CFT/CFP obligations which include undertaking due diligence on the beneficial owners of the trust.

Figure 125: Discretionary trusts: TCSP administered asset types - 30th June 2023



10.13. Assets may be held directly by the trustee (in its capacity as trustee of the trust) or ultimately owned on behalf of the trustee (in its capacity as trustee of the trust) via an underlying company or companies. It is relatively common for a discretionary trust to be established with an underlying company to hold the investment. The reasons for the use of a company include the following:

- ringfencing different categories of assets from other types of assets held by the trustee particularly trading assets where the risk of default might result in a liability for the trust;
- providing for the asset to be held in a company under the management of its executive directors who are the persons best placed to operate the company;
- to aid any disposal of the asset for example through a sale of the company or an IPO; or,
- to meet foreign investment requirements which might apply in a jurisdiction where an asset is located.

10.14. The use of discretionary trusts within high value and sometimes complex structures is consistent with Guernsey’s longstanding position as a leading trust law jurisdiction. The majority of settlors are resident in the UK, accounting for nearly a third, with the next highest resident in South Africa, Switzerland, Middle East, USA and Monaco. The TCSP sector does have reasonably sizeable business links with countries regarded as TF focus countries and PF hubs but discretionary trusts do not feature in the methodologies for either terrorist financing or proliferation financing. Terrorist organisations tend to have “corporate” needs for which a company would be used over a discretionary trust where control over assets and distributions lie with the trustee (see above). For similar reasons it would be extremely unlikely for a trust to

be used to undertake a trading activity in the way a company might be used to trade in a proliferation programme.

- 10.15. As stated above, a settlor can retain some control over a trust through the reservation of certain powers over the administration of trust assets including capital or income payments, and over the management of trust property including the power to appoint or remove a trustee or beneficiary or change the proper law of the trust. In practice where powers are reserved to the settlor this usually relates to how an investment portfolio held by the trustee is managed.
- 10.16. An alternative means through which the settlor can continue to have a role in the management of trust assets is through the establishment of a private trust company to act as the trustee, where one or more family representatives or advisers may sit on the board. There are 135 Guernsey companies which are private trust companies administered by licensed TCSPs, which act as trustee of 324 trusts of which 269 are Guernsey law trusts, representing 2.8% of the total number of discretionary trusts. Just over a quarter of these private trust companies act as trustee of trusts each holding assets of less than £1m but there are a small number of trusts with a private trust company the trustee, where the asset values are very substantial.
- 10.17. The risks presented by trusts with trustees which are private trust companies are mitigated by the high incidence (83%) of licensed TCSPs having a senior representative on the board of the private trust company (whom the GFSC has vetted as they hold a supervised role within the administering TCSP). Additionally, a private trust company must be licensed or granted permission by the GFSC to act as an administered private trust company for a limited period without a full fiduciary licence. In either case the GFSC undertakes due diligence on the beneficial ownership of the private trust company, the settlor, any protector and beneficiaries. The permission held by an administered private trust company must be renewed prior to expiry affording the GFSC the opportunity to review the appropriateness of the private trust company continuing to act on a permissions basis.
- 10.18. In keeping with the sophisticated profile of discretionary trusts, it is standard practice for the settlor to take legal advice on establishing a discretionary trust and the drafting of a trust deed will usually be undertaken by a Guernsey advocate to avoid any doubt about the trust's validity or enforceability. Guernsey advocates are subject to AML/CFT/CFP controls and supervision. Whilst the advocate retains no on-going relationship with the trust once it is established, their legal input (or that of another advocate) will usually be sought if there are any changes to the trust such as the removal or appointment of beneficiaries or of the trustee, or when distributions are made to beneficiaries, as these situations typically require additional deeds to be

drafted. When this occurs Guernsey advocates update the beneficial ownership information they hold on the trust.

- 10.19. The sophisticated use of discretionary trusts means that it is also standard practice for the trustee to be a professional licensed by the GFSC who is subject to AML/CFT/CFP controls and supervision. These AML/CFT/CFP controls require the trustee to obtain beneficial ownership information on the parties to the trust, including the settlor, beneficiaries and any protector. The trustee will also want to satisfy itself that the settlor has taken appropriate advice, including tax advice if relevant, on establishing a trust in order to fulfil both its AML/CFT/CFP obligations and its fiduciary duties. The trustee will monitor for any changes of beneficial ownership or unusual activity or transactions through its ongoing role in managing and administering the trust. The trustee will also hold the trust's records such as the trust deed and any supplemental trust instruments (e.g. deeds adding or removing beneficiaries or making distributions), any letter of wishes and books and records of the trust including minutes and resolutions, signed agreements and financial statements.
- 10.20. Guernsey banks will be a further source of beneficial ownership information on a discretionary trust as the vast majority of the structures will have a bank account in Guernsey.
- 10.21. Guernsey resident individuals completing annual personal tax returns (i.e. taxpayers) are required to advise the Revenue Service where they have settled assets into a trust and, where they have settled assets, also provide information on the identity of the trustee and the name of the trust. The number of trusts captured by this requirement has reduced and, as at the 2021 tax return, there were 314 of them. Almost 60% of these trusts have trustees which are TCSPs licensed by the GFSC.
- 10.22. Discretionary trusts are mainly used by non-Bailiwick resident customers, and the trust or the corporate structure it owns, can hold significant high value assets of various types, and be transacting on a cross-border basis. As a discretionary trust can serve to conceal the identity of its beneficial owners or the true source of wealth or funds, the main money laundering threats they are vulnerable to are bribery, corruption, tax evasion and fraud.
- 10.23. The manner in which a discretionary trust is established, with legal ownership transferred to a trustee to determine how to distribute the trust assets, makes it an unlikely vehicle of choice to finance terrorism or proliferation financing.

Risk ratings

Figure 126: Discretionary trusts (non-pension etc./EBTs): materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
<p>Very significantly material in terms of number and value of assets held in discretionary trusts.</p>	<p>No requirement to register creation and no public record of establishment to provide data on the total number of trusts.</p> <p>May be used as part of complex structuring of private wealth involving multiple ownership vehicles.</p> <p>A large number of non-Bailiwick resident beneficial owners (settlers and beneficiaries).</p> <p>Assets located outside the Bailiwick.</p> <p>Potential for settlor to influence the operation of the trust by reserving certain powers or establishing a private trust company to act the trustee.</p>	<p>Majority of trusts administered by licensed TCSPs subject to AML/CFT/CFP framework and who hold beneficial ownership information.</p> <p>Licensed TCSPs are supervised for compliance with AML/CFT/CFP obligations which apply at creation and on an ongoing basis. This includes disclosing status to financial service businesses etc.</p> <p>Information disclosed annually to Revenue Service on trusts without a licensed TCSP but who have a Guernsey resident settlor or trustee.</p> <p>Requirement for unregulated trustees to hold beneficial ownership information and disclose status to financial service businesses etc.</p> <p>Private trust companies must be licensed or granted permission to act from the GFSC.</p>

Materiality	Inherent vulnerabilities	Mitigants
		<p>Engagement of other GFSC licensed persons providing banking, investment, and professional advisory services (e.g. tax, legal or accountancy) supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

10.24. The inherent money laundering risk of discretionary trusts (non-pension etc./EBTs) is assessed as **Much Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Higher**.

10.25. The inherent terrorist financing risk of discretionary trusts (non-pension etc./EBTs) is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.

10.26. The inherent proliferation financing risk of discretionary trusts (non-pension etc./EBTs) is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

11. PURPOSE TRUSTS

- 11.1. As a leading trust jurisdiction, it has long been possible to create charitable purpose trusts and since 2008, non-charitable purpose trusts under Guernsey trust law. Purpose trusts are primarily used in the fiduciary sector but also less often in the investment and insurance sectors.
- 11.2. As explained above in the context of discretionary trusts, a trust is usually a relationship where one person, the settlor, transfers the ownership of property to another person, known as a trustee, to hold for the benefit of another person who is the beneficiary. However, purpose trusts are different to non-purpose trusts because they are created for a specific purpose and need have no beneficiaries in order for the trust to be valid and enforceable. The purpose can be any purpose (provided it is lawful and sufficiently certain), whether or not involving the conferral of benefit on any person, and could include, without limitation, the holding or ownership of property (e.g. shares in a specific company or a specific investment) and/or the exercise of functions (e.g. the exercise of voting rights).
- 11.3. In the absence of beneficiaries, a non-charitable purpose trust must have an enforcer to ensure that it fulfils its non-charitable purpose. However, as with a discretionary trust, a purpose trust will only be valid if there is a trustee holding or who has vested in them property, which does not form part of the trustee's estate. Unlike a discretionary trust established for the benefit of beneficiaries, where the trustee has a duty to act in the interests of the beneficiaries, the trustee of a purpose trust, has a duty to act in the advancement of the charitable or non-charitable purpose.
- 11.4. Most purpose trusts are used in the fiduciary sector usually for succession planning or wealth management purposes. For example, a non-charitable purpose trust may be used for the purpose of pursuing a specific investment strategy such as ESG (environmental, social and governance) investing, or used philanthropically to support charitable causes which may not be regarded as charitable in certain jurisdictions. The purposes are stated in the trust instrument and, as well as dealing with holding a specific asset or making certain types of investments or distributions, will deal with ancillary matters (e.g. where the purpose is to hold shares in a family business, the purposes should also deal with voting and dividend policies).
- 11.5. A purpose trust might be chosen over a discretionary trust for several reasons. Under a discretionary trust, a trustee must preserve and enhance the value of trust assets, act in the interests of the beneficiaries and beneficiaries have certain rights including

rights to information about the trust property. A trustee of a discretionary trust could be challenged by the beneficiaries for investing in a poorly performing business or pursuing a high-risk investment strategy. This risk is removed if a non-charitable purpose trust is used because its purpose might be to invest in a specific company or pursue a certain investment strategy. A further consideration could be the family dynamic which may make it preferable to use a purpose trust to place the trustees in a neutral position with the family because there is no exercise of the discretion a trustee has under the terms of a discretionary trust, to benefit a particular beneficiary. The enforcer, who must be independent from the trustee, will typically be a representative of the family or their advisers.

- 11.6. A further use of a purpose trust in the fiduciary sector is to own a private trust company established to act as a trustee for a trust or a group of connected trusts, often on behalf of a family for succession planning reasons. For example, a private trust company may be established for a family. This company will have no assets of its own or act commercially but if a person was to own it, it would form part of their estate and on their death devolve to their heirs which may not be part of the succession plan.
- 11.7. Charitable trusts are often used in the fiduciary sector where individuals or families wish to set up a structure for exclusively charitable purposes, with “charitable” having a specific meaning under Guernsey and Alderney law. As in many jurisdictions, a “charitable purpose” essentially must provide some benefit to the public or a section of the public. These types of charitable trusts will usually be privately funded by an individual or a family and be administered by a licensed fiduciary. Charitable trusts are also often used in the third sector as a vehicle for fundraising and making distributions to support charitable causes both locally and internationally. Such charities are generally required to register with the Guernsey Registry under the Charities etc. (Guernsey and Alderney) Ordinance 2021. Approximately a sixth of registered charities are established as a charitable purpose trusts. The money laundering, terrorist financing and proliferation financing risks associated with registered charities established as charitable trusts is considered in NRA2.
- 11.8. The primary reason for using non-charitable purpose trusts in the investment and insurance sectors is to hold shares in licensed investment or insurance companies in order to “orphan” them. This is often done in order to ensure that the company is bankrupt remote. That is to say that in the event that the company becomes insolvent, there is no risk of contagion to its shareholders or other members of a larger corporate group. Very often those companies provide no economic benefit to their shareholder and so ownership of them presents only a downside risk – the risk of insolvency – with no potential upside. All of the assets of the company are available

to meet obligations owing to creditors, as is the case with companies owned other than by a purpose trust. The liability of a shareholder of a limited company is limited to the amount unpaid (if any) on the shares held by them. Accordingly, the fact that the company is owned by a purpose trust does not advantage or disadvantage creditors. However, adverse reputational issues associated with bankruptcy and the regulatory solvency complications of a Guernsey regulated entity being owned by an overseas regulated entity are avoided.

- 11.9. In addition, where a regulated company (in Guernsey or elsewhere) wishes to establish a GFSC licenced Guernsey insurance or investment company, it may decide to do so through a purpose trust rather than holding the shares in the regulated entity itself. That is because ownership of a regulated subsidiary may impact the regulatory solvency or capital adequacy requirements of the parent, for example, upon consolidation of the subsidiary with the parent. Their ownership structure will be disclosed to relevant supervisory authorities as part of the application process and provided the structure of ownership is transparent and the supervisor can establish beneficial ownership and be confident that its ownership structure will not hinder AML/CFT/CFP and prudential supervision, there is no reason why a purpose trust would not be permitted.
- 11.10. It is for both of those reasons, that Guernsey companies appointed to act as a general partner of a GFSC authorised or registered collective investment scheme (often a private equity fund) or licensed insurers (particularly those acting as special purpose vehicles) may be owned by a purpose trust. Those general partner companies may be used in respect of the main private equity fund itself as well as ancillary vehicles to the fund such as carried interest or co-investment vehicles.
- 11.11. The use of purpose trusts for these reasons in the fiduciary and investment sectors is consistent with Guernsey's position as a leading trust law jurisdiction and a centre for the administration of collective investment schemes. In many respects a purpose trust, although a legal arrangement without legal personality, is comparable to a foundation which may also be established for a purpose and have no beneficiaries. Foundations are available in many civil law jurisdictions which make similar use of foundations in private wealth management arrangements. Guernsey foundations have been used instead of a purpose trust to achieve the same ends.
- 11.12. It is standard practice within the fiduciary and investment sectors for advice to be taken from a Guernsey advocate on the establishment of a purpose trust to ensure that the trust deed clearly expresses the purpose of the trust to avoid any doubt about the trust's validity or enforceability. Guernsey advocates are subject to AML/CFT/CFP controls and supervision.

- 11.13. Acting as a trustee or enforcer of a non-charitable purpose trust by way of business is a restricted activity requiring regulation in Guernsey. The sophisticated use of purpose trusts means that it also standard practice for the trustee to be a professional licensed under the Regulation of Fiduciaries Law who is also subject to AML/CFT/CFP controls and supervision. These AML/CFT/CFP controls require the advocate and the trustee to obtain beneficial ownership information on the parties to the trust. The trustee will have a continuing relationship with the trust to monitor for any changes of beneficial ownership or unusual activity or transactions.
- 11.14. Additional comfort in relation to the accuracy of beneficial ownership data and the prevention of misuse of a purpose trust can be taken from the involvement of the GFSC in the vetting of the principals who apply to set up an authorised or registered collective investment scheme if the structuring of connected vehicles includes a purpose trust as these principals (or colleagues within the investment manager or private equity house) will be creating the trust.
- 11.15. Guernsey banks will be a further source of beneficial ownership information on a purpose trust where the private trust company has opened an account to hold assets within the trust(s) it acts for or where the limited partnership or general partner company (held by the trust) has a bank account. The vast majority of these structures will have a bank account in Guernsey even if the purpose trust has no bank account of its own.
- 11.16. There are just under 300 purpose trusts with a licensed TCSP as trustee, but they account for nearly a fifth of the total value of assets under trusteeship, largely holding liquid or near liquid assets, although 10% of assets comprise of private company shares.
- 11.17. Purpose trusts have long been used in the fiduciary and investment sectors. A purpose trust will remain valid for so long as there is its purpose to fulfil which means in the fiduciary sector a purpose trust can span a family generation or generations. In the investment sector, the purpose trust established by an investment manager for its first collective investment scheme can be used for holding assets such as general partner companies connected to its subsequent schemes.
- 11.18. In itself a purpose trust may not be active. This is because it may not be in receipt of funds and hold no bank account. In addition, the assets it does hold such as a private trust company or general partner company, are of little economic value on their own (irrespective of the value of assets under trusteeship or management).

11.19. These trusts are mainly used by non-Bailiwick resident customers, the related structures can hold significant high value assets and be transacting on a cross-jurisdictional basis, but the main money laundering threats to a purpose trust will be through the structure it is within and relate to the sector where it is used. A purpose trust which is used for private wealth management structuring will therefore be vulnerable to bribery, corruption, tax evasion and fraud, which is similar to that of discretionary trusts. A purpose trust in use in an investment structure will be vulnerable to money laundering, where assets held in the structure are located in countries with a high risk of bribery and corruption or because the structure is held by parties using it for criminal purpose to commit market abuse or defraud investors, which is similar to that of collective investment schemes.

Risk ratings

Figure 127: Purpose trusts: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Significantly material by value of underlying assets, less materiality by number.	Used in structuring more complex private wealth and investment arrangements which may hold a variety of high value assets. Cross-border activity as underlying assets located in foreign jurisdictions. Non-resident beneficial owners (settlers and beneficiaries).	In view of their specificities, administered by licensed TCSPs supervised for compliance with AML/CFT/CFP obligations who will hold beneficial ownership information. Engagement of other GFSC licensed persons providing banking, investment, and professional advisory services subject to AML/CFT/CFP obligations and supervision and who will hold beneficial ownership information. Requirement for unregulated trustees to hold beneficial ownership information and disclose

Materiality	Inherent vulnerabilities	Mitigants
		<p>status to financial service businesses etc.</p> <p>GFSC role in licence applications when purpose trusts are used to own an investment or insurance licensee.</p> <p>Licensed TCSPs highly knowledgeable and professional.</p>

11.20. The inherent money laundering risk of purpose trusts is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.

11.21. The inherent terrorist financing risk of purpose trusts is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.

11.22. The inherent proliferation financing risk of purpose trusts is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

12. RETIREMENT ANNUITY TRUST SCHEMES

- 12.1 RATS are a specific type of discretionary trust created for the sole purpose of providing a pension for the members when the member reaches retirement age. These funds are held in trust and invested by the trustee. RATS may be a single member RATS (based on the individual member's requirements) or a multi-member RATS (which is a scheme set up for multiple members) where an individual can be added as a member of the RATS. Pensions can also be created by a contract (Retirement Annuity Contracts (RACs)), which is similar to a RATS. However, the pension fund is held under a contract rather than in trust.
- 12.2 A RATS has the member (settlor) and trustees (of which there must be a least two unless a corporate trustee is acting). It is rare to have a protector as RATS are created with a comprehensive set of rules (in order to meet the requirements to be approved by the Revenue Service) and a clear ultimate purpose of providing the member with a pension when they retire.
- 12.3 Income tax legislation provides for the income of an approved RATS to be exempt from tax during the contributory phase. Income tax is payable, by the member upon payment of the pension, excluding an initial tax-free lump sum upon commencement of pension benefit (limited to 30% of the fund value and further restricted to a maximum tax-free limit of £203,000). RATS are, therefore, an effective tax planning arrangement whereby members can make tax free contributions to provide a (taxable) income in their retirement.
- 12.4 To gain the tax benefit, the RATS must be approved by Revenue Service under income tax legislation, and it must operate within the confines of conditions the authority attaches to that approval to continue to qualify for that tax benefit. To provide approval the Revenue Service requires information on the name of the scheme, the trustees, the name and address of the member and the member's Guernsey tax reference number. The authority is therefore a source of information on the identity of the persons who are the beneficial owners of the RATS.
- 12.5 The RATS must solely be for the purpose of providing member/s with a pension and contributions must be made in fiat monetary form. There are specific limitations on the timing and tax payable on the drawing of a pension and on the types of investments a RATS may hold. The Revenue Service imposes those limitations by placing conditions on the scheme's approval. Where a RATS is able to admit both Guernsey residents and non-residents the same rules must apply to both classes of members. There are also obligations on informing the Revenue Service of changes to trustee/s and to provide annually financial statement/ accounts of the RATS to the

Revenue Service. The Revenue Service reviews the personal tax returns of all individuals (RATS members) who contribute into a RATS to establish affordability. Where the contributions paid seem to be high when compared to taxable income, relevant enquiries will be made of the RATS member. The financial statements/accounts of the RATS are also subject to review by the Revenue Service, which scrutinises the financial statements/accounts to ensure the RATS continues to be operated solely for the purpose of providing members with a pension and is operating within the conditions set for approval. These requirements act as significant risk mitigants.

- 12.6 If unauthorised payments are made, the Revenue Service has various enforcement powers, which include the imposition of a 50% tax on the unauthorised payment or removing approval of the scheme (where a 20% income tax charge would be applied to the total value of the RATS).
- 12.7 Based on 2023 Revenue Service records, there are 2,309 RATS, of which a quarter are in the drawdown phase meaning that a pension is being paid to the member. Only 900 existing RATS have an unregulated trustee. Nearly two-thirds of RATS (1,385) are administered by licensed TCSPs. There is an increasing trend toward RATS appointing licensed TCSPs as trustees – there were 11 RATS approved in 2020 with unlicensed trustees; seven in 2021 and two in 2022. The majority of RATS without a licensed TCSP are mainly legacy RATS as almost all new RATS have licensed TCSPs appointed. These legacy RATS are generally individual member schemes and are subject to continual Revenue Service monitoring to ensure adherence to the conditions for approval (including having basic and beneficial ownership information). Where an approved RATS is a multi-member scheme which admits non-residents, Revenue Service experience is that such schemes have a licensed TCSP and are therefore subject to both continual monitoring by Revenue Service and supervision by the GFSC.
- 12.8 The RATS which are administered by licensed TCSPs are subject to pension supervision by the GFSC which supervises the scheme and the trustee to ensure the proper running of the scheme and that members are treated fairly. Supervision includes annual statistical reporting on the value of the scheme and number of members.
- 12.9 If a RATS is not approved, then for tax purposes it is treated as any other revocable trust, the income from which will not be exempt from income tax and will be taxable in the hands of the member (settlor).
- 12.10 As detailed above, there are significant controls in place throughout the life of a RATS and significant consequences in the event of a trustee not acting in accordance with the terms of approval set by the Revenue Service. As such it would be an extremely

bold move to attempt to use a RATS to commit any financial crime (including tax evasion, money laundering, terrorist financing, etc).

Risk ratings

Figure 128: RATS: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Less material by value and number of RATS	Some beneficial owners (settlers and beneficiaries) and assets are located outside the Bailiwick.	<p>Vast majority of RATS are administered by licensed TCSPS supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>Subject to monitoring by Revenue Service.</p> <p>Beneficial ownership information available to competent authorities from Revenue Service.</p> <p>RATS with licensed TCSPS are subject to GFSC pension supervision.</p> <p>Requirement for unregulated trustees to hold beneficial ownership information and disclose status to financial service businesses etc.</p> <p>Long term products so unattractive to parties seeking to use assets for time-specific purpose (e.g. to fund terrorist or proliferation activity).</p> <p>Engagement of other GFSC licensed persons providing</p>

Materiality	Inherent vulnerabilities	Mitigants
		<p>pension and investment advice (licensed insurance intermediary), banking, investment and professional advisory services (e.g. tax, legal or accountancy) supervised for compliance with beneficial ownership obligations who hold beneficial ownership information.</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

- 12.11 The inherent money laundering risk of RATS is assessed as **Medium**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium Lower**.
- 12.12 The inherent terrorist financing risk of RATS is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 12.13 The inherent proliferation financing risk of RATs is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

13. OCCUPATIONAL PENSION SCHEMES

- 13.1 Approved occupational pension schemes are workplace pension schemes set up by employers to provide pensions for their employees and provide a means for employees to save for their retirement and secure a pension. It is usual for the employee to pay a percentage of their salary as a contribution and the employer must also pay a contribution.
- 13.2 They may be defined benefit schemes where the pension is linked to the employee's salary with the pension which is ultimately paid based on pay at the time of retirement and is not affected by the performance of the underlying investments. Alternatively, they may be defined contribution schemes (also known as money purchase schemes) where contributions are invested to provide a pension upon retirement where the amount received will be linked to how much was contributed and the performance of the investments purchased with that contribution.
- 13.3 Income Tax legislation provides for the income of an approved occupational pension scheme to be exempt from tax during the contributory phase. Income tax is payable by the pensioner upon payment of the pension. Occupational pensions are an effective tax planning arrangement, provided by the employer, whereby the employee can make tax free contributions to provide a (taxable) source of income in retirement.
- 13.4 To qualify for the tax relief on contributions domestic occupational pensions must be approved under income tax legislation where the pension scheme is created by way of a trust. There are 396 such schemes. Certain conditions are attached to the approval covering the operation of the scheme including when benefit may be drawn by the member, and the tax rate applied to the benefit. These conditions also cover the appointment of the trustee, any changes to the scheme's terms, and transfers in from other pension schemes.
- 13.5 When making an application for approval of an Occupational Pension Scheme the information required to be submitted to the Revenue Service includes the name of the Scheme and sponsoring employer, approximate size of membership and confirmation of whether the trustee is licensed by the GFSC and therefore required to comply with the GFSC Pension Rules. If the trustee is not licensed the Revenue Service requires a copy of the trust deed.
- 13.6 As these schemes are sponsored by an employer there is a very limited ability for the members (employees) of such schemes to control matters relating to the pension

scheme, except where the member is a director of the sponsoring company and able to control more than 15% of the sponsoring employer. In these circumstances the Revenue Service will apply a condition requiring an independent trustee acceptable to it who cannot be removed without its permission and for annual scheme accounts prepared by a qualified accountants to be submitted within six months of the end of the scheme's accounting period.

- 13.7 Given the specific rules applied to these schemes, the Revenue Service experience is that a sponsoring employer will utilise the services of a licensed TCSP or a licensed pension provider to manage the scheme and a Guernsey Advocate to draft the Instrument of Trust (and other documentation detailing the specific rules of the scheme). Furthermore, it would be expected that the rules will require periodic actuarial valuations to determine the performance of the investments making up the pension fund.
- 13.8 The financial statements of the sponsoring employers are required to be submitted to the Revenue Service as part of their annual filing of tax returns. As part of the audit process of company returns the authority will review the claims for deductions in respect of employer contributions to the scheme and where such contributions seem disproportionately high compared to salaries' deductions claimed, relevant enquiries will be made (including the ability to compel the production of supporting documentation).
- 13.9 As detailed above, there are significant controls in place throughout the life of these schemes and significant consequences in the event of a trustee not acting in accordance with the terms of approval set by the Revenue Service (and the GFSC). As such it would be extremely difficult for a member to control their pension fund (in order to misuse it) and it would be a bold move for a sponsoring employer to use an approved scheme to attempt to commit any financial crime (including tax evasion, money laundering, terrorist financing, etc).

Risk ratings

Figure 129: Occupational pension schemes: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Much less material by value and number of schemes	The sponsoring employer or members could be resident outside the Bailiwick.	Administered by licensed TCSPs supervised for compliance with AML/CFT/CFP obligations, who

Materiality	Inherent vulnerabilities	Mitigants
		<p>will hold beneficial ownership information.</p> <p>Schemes and licensed TCSPs are subject to the GFSC's pension supervision.</p> <p>Subject to monitoring by the Revenue Service.</p> <p>Requirement for unregulated trustees to hold beneficial ownership information and disclose status to financial service businesses etc.</p> <p>Not flexible</p> <p>Long term products so unattractive to parties seeking to use assets for time-specific purposes (e.g. to fund terrorism or proliferation activity).</p> <p>Engagement of other GFSC licensed persons providing banking, investment, and professional advisory services (e.g. tax, legal or accountancy) supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>Schemes funded by deduction from salaries and not via the members.</p> <p>Information about the scheme available to competent</p>

Materiality	Inherent vulnerabilities	Mitigants
		<p>authorities from the Revenue Service</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

13.10 The inherent money laundering risk of occupational pension schemes is assessed as **Medium**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium Lower**.

13.11 The inherent terrorist financing risk of occupational pension schemes is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.

13.12 The inherent proliferation financing risk of occupational pension schemes is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

14. EMPLOYEE BENEFIT TRUSTS

- 14.1 Employee benefit trusts (EBTs) are trusts that are created by sponsoring employers to incentivise and reward employees; the precise nature of those benefits and how they are provided to employees will vary from scheme to scheme. An employer may wish to attract new, high calibre, employees and incentivise existing employees. To do so they may set up a benefits scheme, that could include offering shares in the employing company, providing the employees with not only a capital reward (being the value of the shares awarded) but a continuing benefit of sharing the distribution of future profits and any further increase in the share value. Such schemes incentivise the workforce to make the company as profitable as possible.
- 14.2 A way to manage that benefits scheme is to create an EBT, with the sponsoring employer the settlor, and with a trustee to manage the trust. An EBT is usually a form of discretionary trust and will have a trust instrument in place which sets out the core terms of the EBT. There may also be additional scheme documentation which sets out the specific operational aspects of the scheme, providing clarity to the trustee who is managing the scheme, and to the employees who the company intends to benefit.
- 14.3 Whilst the trust may be a discretionary trust, owing to the nature of EBTs there may be specific elements set out in the trust instrument, such as:
- the sponsoring employer being excluded from benefiting from the trust (except where the trustee owes monies to the employer, such as a repayment of a loan advance to a member from the sponsoring employer);
 - Whilst the beneficiaries of the EBT will likely be specified as a class of beneficiaries it will be tightly drafted to only apply to specific groups of employees (possibly also former employees) and also may be extended to their dependants;
 - A waiver may be put in place so that the trustee does not receive dividends in respect of the shares it holds for the scheme and that the trustee will abstain from voting at general meetings in its capacity as shareholder; and,
 - The trustee may be given the ability to consider recommendations from the board of the sponsoring employer but will not be bound to follow them.
- 14.4 It is not unusual for the sponsoring employer to design the scheme with a delay between the granting of the awards and the vesting of those awards, as a way to incentivise the employee to remain employed with the company (where such benefit is forfeited if the employee leaves during that period). For example, the benefit may be awarded after two years of good service in the company but will only vest after a further period of three years continuing good service.

- 14.5 Given the specific and detailed requirements to set up an EBT it is standard practice for the sponsoring employer to take advice from a Guernsey advocate on the precise detail of the trust instrument and other scheme documentation. For the same reason it is also common for a licensed TCSP to be put in place as the professional trustee to manage the scheme. Both Guernsey advocates and TCSPs are subject to AML/CFT/CFP controls and GFSC supervision.
- 14.6 There are 1,159 EBTs, the majority of EBTs with Guernsey TCSPs acting as trustee relate to non-Bailiwick resident employers, in particular multi-national companies with mobile employees who may be assigned to work in various parts of the company's worldwide operations. One of the reasons to use Guernsey for these schemes is for their tax treatment under Guernsey's tax regime. Income and capital accrue to the scheme free from Guernsey tax, and whilst this might infer there is an increased risk of tax evasion, sponsoring employers take tax advice domestically and in their home jurisdiction at the outset and through the life of the scheme to ensure that the scheme complies with applicable on-shore as well as Guernsey tax requirements. Accountants who provide Guernsey tax advice are subject to AML/CFT/CFP supervision by the GFSC.
- 14.7 Guernsey employers who sponsor a scheme will need to seek prior approval from the Revenue Service if they wish for the benefit in kind arising for each employee to be deferred from the date of granting of the benefit to the date the benefit is vested. The authority monitors the company's annual tax return to ensure that tax at 20% of the value of the benefit is deducted from the employee's salary.
- 14.8 Given the nature of EBTs, in that they are a scheme organised by a sponsoring employer to benefit their employees who perform well, it would be extremely difficult for an employee to control the scheme (in order to misuse it) and it would be a bold move for a sponsoring employer to attempt to use a scheme to attempt to commit any financial crime (including tax evasion, money laundering, terrorist financing, etc).

Risk ratings

Figure 130: Employee benefit trusts: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Less materiality by number and value.	Sponsoring employers and members outside Bailiwick.	Administered by licensed TCSPS supervised for compliance with AML/CFT/CFP obligations who

Materiality	Inherent vulnerabilities	Mitigants
		<p>will hold beneficial ownership information.</p> <p>EBTs for Bailiwick employers monitored by the Revenue Service.</p> <p>Requirement for unregulated trustees to hold beneficial ownership information and disclose status to financial service businesses etc.</p> <p>Their use limited and assets held typically comprise of shares of the sponsoring employer.</p> <p>Not flexible</p> <p>Long term product so unattractive to parties seeking to use assets for time-specific purposes (e.g. to fund terrorism or proliferation activity).</p> <p>Engagement of other GFSC licensed persons providing banking, investment, and professional advisory services (e.g. tax, legal and accountancy) supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>Licensed TCSPs and other licensees highly knowledgeable and professional.</p>

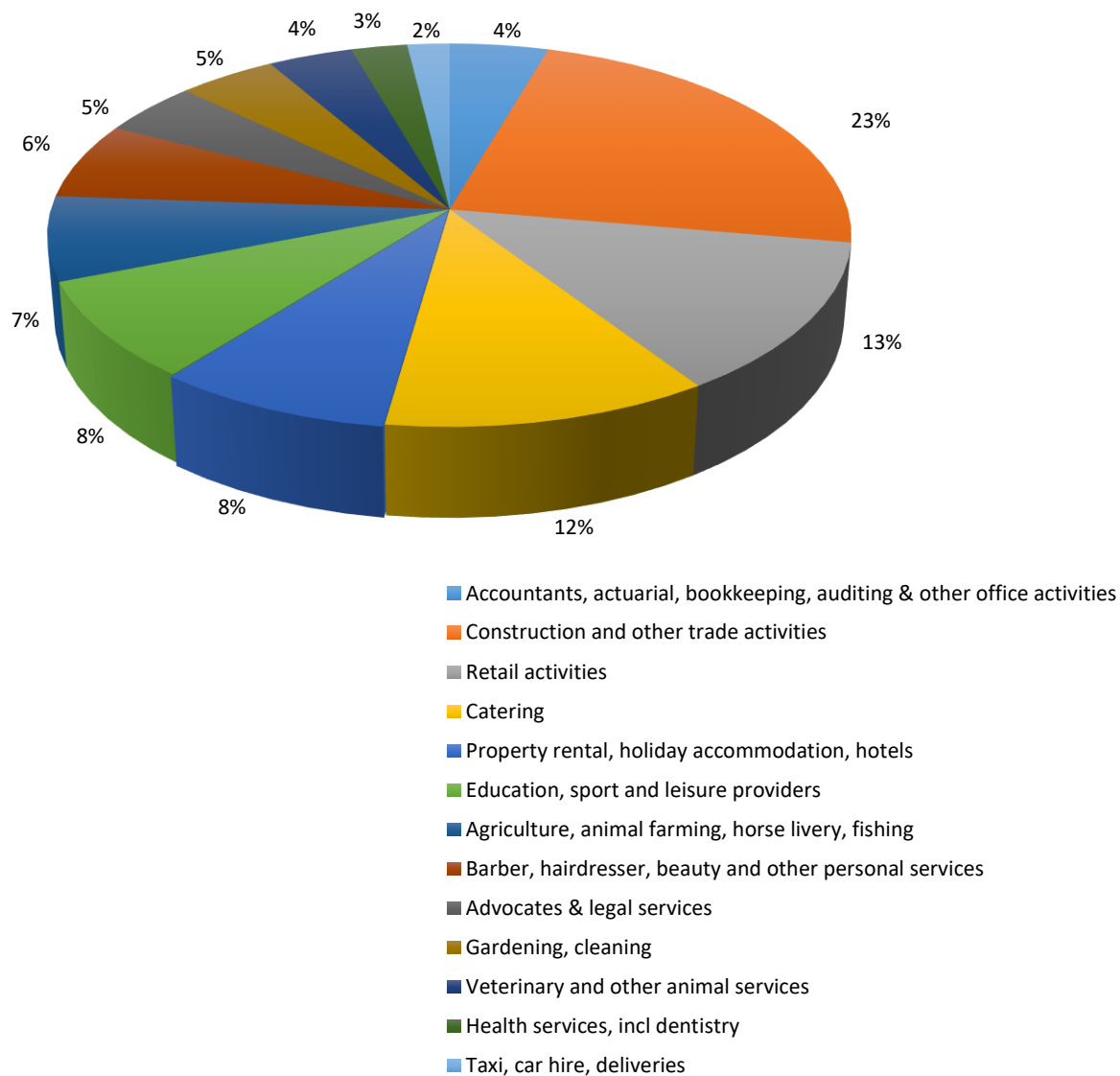
- 14.9 The inherent money laundering risk of EBTs is assessed as **Medium**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium Lower**.
- 14.10 The inherent terrorist financing risk of EBTs is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 14.11 The inherent proliferation financing risk of EBTs is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

15. GENERAL PARTNERSHIPS

- 15.1 It has been possible to establish general partnerships in Guernsey since at least the 19th century. They are now governed by the Partnership (Guernsey) Law 1995. They are typically established as trading vehicles for local businesses providing everyday services to the community.
- 15.2 General partnerships are formed of two or more persons (partners) who agree to form a partnership to carry on business for profit. The partners may be individual persons or companies carrying on a business venture in a partnership. General partnerships comprised of corporate partners are often referred to as a joint venture. Rights and liabilities are usually shared equally by all partners and all partners can bind the partnership.
- 15.3 Typically, there is no requirement for a written instrument creating the partnership, and one is not needed, as the simple act of two or more persons carrying on a business is sufficient to obligate the partners to declare their income from the partnership on their annual income tax returns (in accordance with section 42 of the Income Tax Law). The partners of general partnerships have always had an obligation to declare their income from carrying on a business in partnership in their annual income tax returns. General partnerships between natural persons will sometime be documented in a partnership deed. General partnerships in the nature of a joint venture will generally be documented in a joint venture agreement.
- 15.4 For all accounting periods commencing from 1 January 2022, all partnerships have been required to register with the Revenue Service and separate to any personal/corporate tax return of the partner, submit an annual partnership tax return with the financial statements (or simplified trading, profit and loss accounts) of the partnership. These measures have enabled the Revenue Service to monitor the activities of partnerships directly via this return instead of indirectly via the annual returns of their partners.
- 15.5 There are 155 general partnerships, which have 322 individuals who are partners. Eighty-four (just over half) of the general partnerships have been formed between partners with a family connection (the majority being spouses, but also with siblings, and parents) reflecting that most are small family businesses.
- 15.6 Almost half of the businesses carried on by a general partnership are engaged in construction trades such as plumbers and electricians; retail (e.g. shops) and catering (e.g. food deliveries, mobile food trailers). The table below provides further detail

reflecting the predominant domestic business activities for which partnerships are used.

Figure 131: Business activities of general partnerships



15.7 The total profits from the last financial statements provided to the Revenue Service by the partnerships is not significant, amounting to £14 million in total. Of this sum, £7.6 million relates to the prescribed businesses and health services sectors which account for under a quarter of the number of partnerships.

- 15.8 The partners are the beneficial owners of a general partnership. The Revenue Service has seen no evidence where a person exerted control over a partnership by other means (such as a “shadow” partner). A general partnership may have a “silent” partner (for example, providing financial support to the partnership without having the same level involvement in its day-to-day business who may typically receive a share percentage of the partnership profits (usually a lower percentage share of the profits). Regardless of the extent of their activity in the actual business activity, a silent partner continues to be obligated to declare the income from partnership on their annual tax returns (and a failure to do so will be evident as the share of profits across each partner would not reconcile).
- 15.9 Just under 10% of partnerships are engaged in prescribed business activities of accountancy and legal services to which anti-criminality checks apply to the partners who are vetted by the Registry in respect of accountants and foreign-qualified lawyers and by the Law Officers and HM Greffier for lawyers qualified as Guernsey advocates. These partnerships are also subject to supervision by the GFSC for compliance with the Bailiwick’s AML/CFT/CFP framework. This means that these authorities are also a source of information on the partners and the activities of the partnership.
- 15.10 General partnerships and their partners engage with obliged entities licensed by the GFSC and supervised for compliance with the Bailiwick’s AML/CFT/CFP framework in a number of ways. Three-quarters of general partnerships (115) hold business bank accounts separate to the bank accounts held by the partners. Two-thirds of the general partnerships engage an accountant to prepare their annual financial statements. If the partnership is operating from business premises, they will engage with estate agents and advocates if purchasing those premises. Where a partnership requires finance (for example, to purchase a business asset) they will engage with a credit provider. The use of banks and other obliged entities adds a further risk mitigation control in light of the AML/CFT/CFP obligations that these obliged entities are required to undertake.
- 15.11 General partnerships carrying on prescribed business and health services typically exist for longer periods as the practice is well established and as partners retire others enter the partnership. Whereas partnerships carrying on businesses in the construction trade and retail sector have greater potential to operate for a shorter period of time as for example a father retires and their child (who was the other partner) carries on the business as a sole trader. No increase in the risk of the misuse of a general partnership has been linked to the period of time for which it has operated.

15.12 The number of partnerships has declined from 239 in 2018 brought about by general partnerships carrying out a prescribed business activity migrating to limited liability partnership structures and the usual reduction in existing partnerships brought about by changes to the Bailiwick’s economic climate including the impact of the Covid pandemic between 2020 and 2022.

15.13 The main threat to general partnerships of being used for ML is from domestic tax evasion or fraud in light of their ownership profile and activities being centred on the Bailiwick. The activities undertaken by general partnerships pose similar risks of misuse as other unincorporated business carried on by a sole trader, namely predominance of cash trade resulting in increased risk of sales suppression, a partner putting private expenses through the partnership’s books; or the business being a front to launder the proceeds of illicit activities undertaken by a partner.

15.14 The Revenue Service monitors compliance with the registration requirement including checks on beneficial ownership. In addition, in August 2023 it undertook a specific data validation exercise to consolidate all of the data contained in its records (at the taxpayer level) relating to general partnerships, to validate the accuracy of the data received under the partnership registration process and holistically review any risks that the partnerships may pose. This review was facilitated by the simplicity inherent in general partnerships.

Risk ratings

Figure 132: General partnerships: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Low materiality by value and number	Some partners and assets located outside the Bailiwick. Some used for local business which may accepted a reasonable volume cash payments.	Formed by Bailiwick residents to provide domestic goods and services. Annual declaration of income to Revenue Service. Requirement for unregulated partners to hold beneficial ownership information and disclose status to financial service businesses etc.

Materiality	Inherent vulnerabilities	Mitigants
		<p>Engagement of GFSC licensed persons providing banking, investment and professional advisory services (e.g. tax, legal and accountancy) supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>GFSC licensees highly knowledgeable and professional.</p>

15.15 The inherent money laundering risk of general partnerships is assessed as **Medium** for those that are involved in cross border business and **Medium Lower** for those that are not. Taking into account mitigating measures, these residual money laundering risks are assessed as **Medium Lower** and **Lower** respectively.

15.16 The inherent terrorist financing risk of general partnerships is assessed as **Medium Lower** with regard to foreign terrorist activity for those that are involved in cross border business and **Lower** for those that are not, and **Much Lower** for both with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risks are assessed as **Lower** and **Much Lower** respectively with regard to foreign terrorist activity, and **Very Much Lower** with regard to domestic terrorist activity.

15.17 The inherent proliferation financing risk of general partnerships is assessed as **Medium Lower** for those that are involved in cross border business and **Lower** for those that are not. Taking into account mitigating measures, the residual proliferation financing risks are assessed as **Lower** and **Much Lower** respectively.

16. LIMITED PARTNERSHIPS WHICH DO NOT HAVE LEGAL PERSONALITY

- 16.1. It has been possible to establish limited partnerships which do not have legal personality in Guernsey since 1995. All such partnerships have been required to be registered since then - since 2008 in practice by the Guernsey Registry. Therefore, these partnerships have been subject to the Registry's due diligence requirements since that time.
- 16.2. Limited partnerships are structured differently to, and serve different purposes to, the other types of legal arrangement (trusts and general partnerships) which can be established in Guernsey. Limited partnerships must have a general partner, which undertakes the management of the limited partnership, and one or more limited partners. Limited partnerships are used for asset holding purposes, particularly as collective investment schemes that are authorised or registered by the GFSC and as ancillary vehicles to these schemes. These ancillary vehicles include, for example, carried interest vehicles and co-investment vehicles. Guernsey is a leading centre for the administration of collective investment schemes, in particular private equity schemes. Private equity, and the establishment of private equity schemes, have increased significantly internationally and Guernsey is a management centre of choice for closed-ended private equity funds. Guernsey's investment sector is mature, and the use of limited partnerships by it is routine.
- 16.3. Holdings by limited partners may be likened to an equity holding, with the general partner having the authority to make decisions in respect of the limited partnership. The limits of the general partner's authority are laid out in both law and the limited partnership agreement (the constitutive document). Limited partners subscribe by committing a specific capital amount which may be contributed in stages known as "capital calls" as particular investment opportunities for the partnership arise. All such capital calls go through a formal legal process, and, by nature, a partnership will only be subject to a small number of them, generally in the first half of the partnership's life.
- 16.4. Limited partner holdings are long-term, usually at least seven years, and depending on the terms of the agreement the partnership's life may be extended beyond the terms specified in the agreement. This might occur when the sale of an investment held by the partnership is postponed because its value would be adversely affected by economic conditions prevailing at that time. Likewise, extensions to the partnership's life will go through a formal legal process.

- 16.5. It is relatively common for there to be one or more limited partnerships connected to a private equity fund, which are collectively authorised or registered by the GFSC as a collective investment scheme (a so-called “basket authorisation/registration”). These partnerships might be utilised to facilitate the introduction of another limited partner, or limited partners from different jurisdictions, provide an existing limited partner with a greater share of one or more of the underlying investments of the scheme, assist in debt financing of the scheme or assist with the performance remuneration of the scheme’s investment managers.
- 16.6. Private equity funds established as limited partnerships are typically established by UK and US investment managers subject to AML/CFT/CFP controls and supervision in those jurisdictions. They are subject to advice by law firms in those jurisdictions, these firms also being subject to AML/CFT/CFP controls and supervision.
- 16.7. Investors in (i.e., limited partners of) the limited partnerships are typically institutional, such as pension funds, family offices and other collective investment schemes mainly from the UK, US and Europe where the investment into the scheme is managed by a professional investment manager invariably supervised in their jurisdiction.
- 16.8. There are 2,284 limited partnerships which do not have legal personality, of which 98% (2,238) are administered by a GFSC licensee. This means that the limited partners and general partner of virtually all limited partnerships are being identified and verified and records maintained in the Bailiwick.
- 16.9. There are 321 limited partnerships which are themselves authorised or registered by the GFSC as collective investment schemes in their own right. There are a further 140 collective investment schemes which have a “basket authorisation/registration” (as described above) which comprise of one or more limited partnership. These 140 schemes are made up of a total of 337 separate limited partnerships. Therefore, in total nearly 660 limited partnerships are either directly or collectively authorised or registered as collective investment schemes. This represents about a third of all limited partnerships. This does not include limited partnerships set up to facilitate the activities of a collective investment scheme as described at 3.100 above.
- 16.10. There are a number of reasons for the use of limited partnerships, particularly in the collective investment scheme sector. These include the flexibility of the structure whereby a person who is a general partner may also be a limited partner, no limit on the number of limited partners and they allow for a limited partnership or company to act as their general partner. A limited partnership is exempt from Guernsey income tax. Non-Bailiwick resident partners are not subject to Guernsey income tax

on the profits from the partnership's business activities outside the Bailiwick but are subject to taxes in the jurisdiction they are resident.

- 16.11. Additional comfort in relation to the accuracy of beneficial ownership data and prevention of misuse of limited partnerships can be taken from involvement by other licensed financial and professional service businesses, who are required to apply AML/CFT/CFP controls to their customer relationships. Limited partnerships structured as collective investment schemes have bank accounts and must file annually with the GFSC audited financial accounts. While many limited partnerships are ancillary vehicles to such schemes, they do not need bank accounts as there is no need for a flow of funds between bank accounts (the financial affairs of the ancillary structures being managed through accounting transactions). Even so the routine use of loan arrangements, means that a substantial minority of these non-fund vehicles have loans from Bailiwick banks and are therefore still subject to their AML/CFT/CFP counter measures. In addition, it is standard for the founders of limited partnerships to use law firms in the Bailiwick in order to ensure that constitutive and other documentation is legally correct and meets the needs of the relevant parties. Moreover, the vast majority of limited partnerships also receive tax advice from local accountancy firms and the annual financial statements of any collective investment scheme which they are, or form part of, are typically audited by local audit firms who are licensed and supervised for AML/CFT/CFP purposes by the GFSC. Therefore, limited partnerships have a substantial footprint across a range of supervised sectors.
- 16.12. As the private equity sector is mature, there has been no tangible change to the risk profile of limited partnerships over the last three years. For the same reason no change is expected in the immediate future.
- 16.13. The main threat of use for money laundering in relation to limited partnerships is similar to the CIS sector. Investors may try to launder criminal proceeds via their investment in the partnership, or exposure to criminality may arise through the activities of the scheme (for example where investments are held in high-risk countries for bribery and corruption) or through its controllers who use the scheme for criminal purposes. The factors described above mitigate these risks. In addition, investors are aware that their money will be tied up for relatively long periods and that their investment is illiquid.

Risk ratings

Figure 133: Limited partnerships which do not have legal personality: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Materially significant by value and number	<p>Significant asset values</p> <p>Cross border activity where partners and assets are located outside the Bailiwick.</p> <p>May add complexity</p>	<p>Their establishment requires registration.</p> <p>Majority are connected to or are collective investment schemes which have been authorised or registered by the GFSC so are subject to mitigants referred to above in relation to collective investment schemes.</p> <p>Long term</p> <p>The majority are administered by GFSC licensed administrators supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p> <p>Requirement for unregulated partners to hold beneficial ownership information and disclose status to financial service businesses etc.</p> <p>Engagement of other GFSC licensed persons providing banking and professional advisory services (e.g. tax, legal or accountancy) supervised for compliance with AML/CFT/CFP obligations who hold beneficial ownership information.</p>

Licensed TCSPs, administrators and other licensees are highly knowledgeable and professional.

- 16.14. The inherent money laundering risk of limited partnerships without legal personality is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.
- 16.15. The inherent terrorist financing risk of limited partnerships without legal personality is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 16.16. The inherent proliferation financing risk of limited partnerships without legal personality is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.

17. FOREIGN LEGAL ARRANGEMENTS

- 17.1. Foreign legal arrangements may be linked to the Bailiwick in the same way as foreign legal persons, i.e. because they are administered by the TCSP sector, because they conduct transactions with reporting entities in the jurisdiction or because they own real or personal property within the Bailiwick, and there is considerable overlap between these two categories in practice. Therefore, foreign legal arrangements are subject to the AML/CFT/CFP framework in the same way as foreign legal persons, as well as to the competence provisions of the prudential regulatory framework that require TCSPs to familiarise themselves with the applicable foreign law of the legal arrangement. This is notwithstanding the point made above in the context of transparency that the precise law applicable to a foreign legal arrangement has little bearing on its money laundering or terrorist financing vulnerabilities in practice.
- 17.2. The number of foreign legal arrangements administered by TCSP is however very much lower at 2,786 than the number of foreign legal persons or Guernsey legal arrangements. To the extent that this occurs, the foreign legal person involved is usually a trust established in another common law jurisdiction such as the UK or Jersey or other jurisdiction with links to the UK. Common legal systems or shared case law reduce the risk of a Bailiwick licensed TCSP not fully understanding these structures or their governing laws to fulfil their trustee duties. The following table shows the most common trust law jurisdictions for the 2,620 foreign law trusts administered by licensed TCSPs as at 30 June 2023:

Figure 134: The most common trust law jurisdictions for the 2,620 foreign law trusts administered by licensed TCSPs as at 30 June 2023

Foreign trust law	Number
UK	1,052
Jersey	679
British Virgin Islands	122
Cayman Islands	105
Isle of Man	87
South Africa	77
Bermuda	63
USA	57
New Zealand	49
Switzerland	43
Bahamas	39

- 17.3. A small number of foreign law partnerships (166) are administered in the Bailiwick by GFSC licensees who will also administer the relevant partnership's general partner

enabling to oversee and monitor the activities of both in accordance with the Bailiwick AML/CFT/CFP requirements. Most of these foreign limited partnerships are used in the investment sector and will have a Guernsey company or limited liability partnership as its general partner. The most common jurisdictions for foreign limited partnerships are the BVI, US and UK.

- 17.4. As with legal persons, the high incidence of financial centres is consistent with international patterns of cross-border business and should not be taken as indicative that any suspected criminality underlying a money laundering indicator took place in those jurisdictions. Furthermore, no trusts established under the laws of a TF focus country are administered from Guernsey.
- 17.5. Foreign legal arrangements are mainly used by non-Bailiwick resident customers, and the trust or the corporate structure it owns, can hold significant high value assets of various types, and be transacting on a cross-jurisdictional basis. Foreign law trusts, particularly those from common law jurisdictions have very similar vulnerabilities as a Guernsey discretionary trust and in the same way can serve to conceal the identity of its beneficial owners or the true source of wealth or funds. They are vulnerable to the same main money laundering threats of bribery, corruption, tax evasion and fraud. However, from a materiality perspective their limited use in the Bailiwick reduces their overall risk profile.
- 17.6. A foreign law trust would be an unlikely vehicle of choice to finance terrorism or proliferation financing.

Risk ratings

Figure 135: Foreign legal arrangements: materiality, inherent vulnerabilities and mitigants

Materiality	Inherent vulnerabilities	Mitigants
Material in terms of number and value of assets held.	Separation of legal and beneficial interests in property with legal interests held by trustee – this can be used by criminals to conceal beneficial ownership.	Majority of trusts will be administered by licensed TCSPs subject to CDD obligations and who hold beneficial ownership information.
	Relatively significant asset values under trust.	Engagement of other GFSC licensed persons providing banking, investment, and professional advisory services (e.g tax, legal and accountancy) supervised for
	No requirement to register creation and no public	

record of establishment in jurisdiction of governing law.	compliance with AML/CFT/CFP obligations who hold beneficial ownership information.
Can be used as part of complex structuring of private wealth involving multiple ownership vehicles.	Licensed TCSPs and other licensees highly knowledgeable and professional.
Used by non-Bailiwick resident beneficial owners (settlers and beneficiaries).	Information disclosed annually to Revenue Service where the settlor is tax resident in Guernsey.
Assets located outside the Bailiwick.	
Potential for settlor to influence the operation of the trust for example by reserving certain powers.	

- 17.7. The inherent money laundering risk of foreign legal arrangements is assessed as **Medium Higher**. Taking into account mitigating measures, the residual money laundering risk is assessed as **Medium**.
- 17.8. The inherent terrorist financing risk of foreign legal arrangements is assessed as **Medium Lower** with regard to foreign terrorist activity and **Much Lower** with regard to domestic terrorist activity. Taking into account mitigating measures, the residual terrorist financing risk is assessed as **Lower** with regard to foreign terrorist activity and **Very Much Lower** with regard to domestic terrorist activity.
- 17.9. The inherent proliferation financing risk of foreign legal arrangements is assessed as **Medium Lower**. Taking into account mitigating measures, the residual proliferation financing risk is assessed as **Lower**.