



Opalesque Round Table Series '10 MALTA

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Editor's Note

Dear Reader,

Malta, as a hedge fund jurisdiction, has been expanding in the last few years, and avoided the contraction suffered by many during the credit crisis. In fact, from about 4 registered funds in 2004, the state now has more than 400.

Malta used to be an offshore centre, but its adhesion to the European Union transformed it into an onshore centre – and at present its government and its financial regulator are working hard to support the financial industry and to promote the Republic as an attractive location for financiers.

In a population of around 400,000, many Maltese acquire financial services skills at university, and many gain experience abroad before moving back to its warm Mediterranean shores. The islands-state, located not far from Sicily, is also currently attracting many foreign financial experts, as English is one of the two official languages (the first being Maltese).

In the first Opalesque Roundtable in Malta, find out why and how:

- EU membership is working out for Malta
- More managers and funds are setting up domicile in Malta
- The UCITS revolution will also take place in Malta
- Maltese authorities continue to create an attractive environment for investors
- Malta, as a European domicile, differentiates from Luxembourg and Dublin
- Attracting quality funds is better than attracting a quantity of them
- Malta saw no bank failures during the financial crisis
- Malta's financial body, the MFSA, authorizes and supervises the industry, and meets each participant
- The role of the financial services industry in Malta's GDP
- The Maltese funds industry is expected to grow externally
- Malta is not regarded as a tax haven
- Repatriation is important for its industry

The Roundtable took place in late October 2010 at the offices of Malta Financial Services Authority, and included the following experts:

- **Ronnie Tanti, Chief Risk Officer, ML Capital**
- **Piotr Skoczylas, Managing Director and Fund Manager, Scotchstone Capital Fund Ltd**
- **Prof. J. V. Bannister, Chairman, Malta Financial Services Authority (MFSA)**
- **James Sanders, Managing Director, Plan B Funding Ltd (Malta)**
- **Joseph Taussig, Founder, Taussig Capital AG**
- **Raymond Busuttil, Managing Director, IIG Bank (Malta) Ltd**

Many thanks to our 2010 Roundtable Series sponsors Taussig Capital and Custom House Group.

Enjoy “listening in” to the 2010 Opalesque Malta Roundtable!

Benedicte Gravrand
Senior News Editor – Opalesque Ltd.
gravrand@opalesque.com

Participant Profiles



(LEFT TO RIGHT, STANDING FIRST)

Noel Vella (guest), Raymond Busuttil, Joseph Taussig, James Sanders, Benedicte Gravrand
Ronnie Tanti, Piotr Skoczylas, Prof. J. V. Bannister

Introduction

Ronnie Tanti

ML Capital Asset Management

I am the Chief Risk Officer for ML Capital Asset Management, a company regulated in Malta by the MFSA. We are the Investment Manager and Promoter for MontLake UCITS Platform Plc, an Irish UCITS III umbrella fund.

Piotr Skoczylas

Scotchstone Capital Fund Ltd

I am a Managing Director and Fund Manager at Scotchstone Capital Fund Ltd, Malta, as well as a Designated Member at Scotchstone Capital LLP, London. Scotchstone Capital Fund is a private collective investment scheme recognized and supervised by the Malta Financial Services Authority, and advised and audited by a Big Four accounting firm. Scotchstone Capital LLP is an industry research and general advisory firm. The investment philosophy of the Fund is based on analysis-driven prudent value investing aimed at preserving investor capital and achieving superior absolute returns.

Prof. J. V. Bannister

Malta Financial Services Authority
(MFSA)

I am the Chairman of the Malta Financial Services Authority (MFSA), the single regulator for all financial services activities in Malta.

James Sanders

Plan B Funding

I head Plan B Funding in Malta, which is a company that looks to raise permanent capital for banks, not only in Malta, but across Europe and primarily in the UK.

Joseph Taussig

Taussig Capital

My company is Taussig Capital, which is based in Zurich, but we have been doing business here in Malta over the last year. We partner with hedge fund managers to create banks and insurance companies as vehicles for permanent capital, the most visible example being David Einhorn's Greenlight. We went public in 2007, it has over \$1 billion of permanent assets and it is called Greenlight Capital Re.

Raymond Busuttil

IIG Bank Limited

I am the Managing Director of IIG Bank (Malta) Limited. The Bank belongs to a Hedge Fund Group based in New York. The IIG Trade Opportunities Fund is a non-market correlated alternative investment fund investing primarily in trade finance, working capital loans in Latin America. I am also involved in a number of investment management companies based in Malta with assets under management of around \$10 billion.

Raymond Busuttil

At IIG we have always focused on what we know best, which is the Latin American trade finance market and our managers should be able to find more opportunities in this sector. Since a number of banks have withdrawn their support to trade finance, there is today increasing demand for loans to finance export trade. Trade finance has proved to be very resilient during the crisis that we have seen over the past three years; and a combination of two factors have increased demand for it tremendously.

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One is the liquidity crisis where banks have stopped lending and borrowers have been seeking alternative financing.

The second factor is the increased demand in the market for commodity products - IIG concentrates on financing clients that are manufacturers of commodities and exporters of commodities to the developed world. Hence, being non-correlated to the market has proven to be a very successful strategy in the long-term; and IIG's good standing in the market has provided them with superior assets over the past couple of years.

But the limitation for growth has been in the funding. Investors have, as everyone well knows, receded from the market. That is why, currently, funds like IIG are finding it somewhat difficult to expand their portfolios and to meet demand; despite the fact that the fund itself has performed remarkably well throughout the crises.

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However, there is still a need by investors to consolidate their positions and they are not coming back yet into the market with reasonable amounts to invest.

Joseph Taussig

The latest development in our area is that lending is probably as good as at any time in business history, loans to value are at all time lows, spreads are at all time highs, and the incumbents around the world are withdrawing from lending. That is why entities like IIG Bank make sense; there are several other fund managers, particularly some with credit strategies that are in the process of setting up banks.

We estimate there are 100 to 200 asset-based lending funds with \$100 to \$200 billion that has been trapped because of the asset-liability mismatch inherent in their business models; offering monthly and quarterly redemptions and lending out two and three years or even five to seven in some strategies. Banking will be the only source salvation for some of these fund managers and the primary source of accelerated liquidity for their investors.

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Joseph Taussig



James Sanders

We are a company that arranges the raising of deposits for banks. We were originally founded to provide liquidity for banks set up by alternative investment managers, although it appears that while fund manager-sponsored banks will always be an important part of our business, we will likely have more traditional banks as clients in the future. At Plan B, we raise fixed term deposits of one to five year terms through comparison web sites, a network of some 12,000 IFAs (which are the UK equivalent of stockbrokers), and through captive insurers. For our banking clients, we offer a way to get access to low cost deposits on a success fee basis.

Piotr Skoczylas

I believe that the market turmoil of the past months has created opportunities for value investors such as Scotchstone Capital Fund.

To begin, it's important to note that we believe that long-term value embedded in the stock market is intrinsically linked to the fundamental value generation potential and capabilities of the underlying companies. In general, we do not believe in following overall market sentiments or trends when investing. Regardless of general market sentiments, we invest in businesses that are both significantly undervalued vs. their intrinsic value and offer healthy balance sheets, strong return potential, robust business models, sustainable competitive advantages, and are run by highly proficient and reliable management. Our approach is to buy stakes in businesses – not to speculate with securities. We focus on opportunities offering an attractive risk-reward profile. We always look at investments on a one-by-one basis; even if a broader market is generally unattractive, there might be particular opportunities within the market, which are very attractive.

What's critical in this context is, we believe, to always thoroughly understand what one is doing. Thus, we conduct in-depth analyses of the key valuation drivers, operating drivers and exogenous factors, as well as the associated risks. We examine the target investments' capital-intensity and returns on capital vs. the cost of capital. We shy away from businesses whose intrinsic value we do not understand well.

Recently, the general equity market sentiment has been – and partly continues to be – negative, with high volatility. This has created attractive investment opportunities meeting the investment criteria I've described. Such opportunities could be found around the globe in the sectors and geographies, which in general investors have shied away from, such as financial services, some technology, building & construction or the so called European periphery.

Ronnie Tanti

We also see a good opportunity in the market which is still under the effect of the Madoff fiasco as well as the banking and credit crisis of 2008. We think that the hedge fund world is currently being driven by the need for more liquidity, more transparency, more governance and more control. At the same time professional investors and institutions are increasing their exposure to products that can use their capital more efficiently. A suitable delivery mechanism is now available for hedge funds going through a UCITS structure. ML Capital is proud to be at the forefront of these industry changing developments with the recent launch of our new UCITS III Dublin regulated platform.

Prof. J. V. Bannister

From what I see, the main opportunity that managers seem to favor right now is emerging markets. Currently, the opportunities in other markets are discounted or stable. Emerging markets offer the best opportunities to make good returns at the moment and will fit even into defensive strategies; what is attractive for investors is to insert an element of emerging market exposure and everyone seems to be in concert on that point.

Ronnie Tanti

Most US and Asian hedge funds have been held back because they lack experience in distribution and branding their products in Europe.

The past 10 years have illustrated the limitations of traditional "long only" equity investing. All investors should have the opportunity to protect themselves from market volatility by investing in regulated hedge funds. However, many of the managers who have launched alternative UCITS products have found that they have weak brand awareness outside of the hedge fund world. This applies not just to smaller boutiques but also some of the very largest hedge fund houses. While there are today a plethora of bank-controlled platforms available, we were looking for a different solution, one with all the clear benefits of a strong platform with the added key factor of a real and widespread distribution capability.

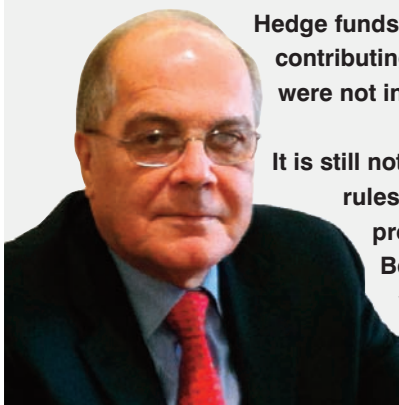
The MontLake Platform, an Irish regulated UCITS III umbrella fund launched by ML Capital is designed to address precisely these concerns. The founders of the company can rely on a wide experience in this industry coupled with a wide distribution network in London, Paris, Geneva and the rest of continental Europe.

Prof. J. V. Bannister

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Basically UCITS hedge funds are becoming like retail hedge funds. Since the crisis, certain institutions, particularly pension funds, have been looking for more diversification and less risk and are going more into UCITS. In Latin American, for example, all the big Chilean pension funds invest in UCITS now. And in places like Singapore, Hong Kong and even China, investors are looking more at UCITS funds than hedge funds.



Hedge funds, unfortunately, suffered from the credit crisis largely not because they were contributing to the risk. In fact, the European Commission Report stated very clearly hedge funds were not involved in any systemic risk at all. They suffered more in the advent of Madoff.

It is still not clear under the new AFIM directive whether there is going to be harmonization of the rules, as each country has separate rules. For example, in the UK you can sell to professional investors, in France you cannot, and in Malta you can, provided you register. Between 2015 and 2018, passporting will be introduced and will be running in parallel with private placements for a while. At that stage, confusion will start to arise.

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The Directive gives powers to the new regulators to come out with new rules, which then have to be passed by the Commission, the European Parliament etc. My fear is that at the end of five years there will be no private placement and no passporting and we will end up in the same confusion we are in today.

Benedicte Gravrand

Could you give us more details about the hedge fund regime in Malta?

Prof. J. V. Bannister

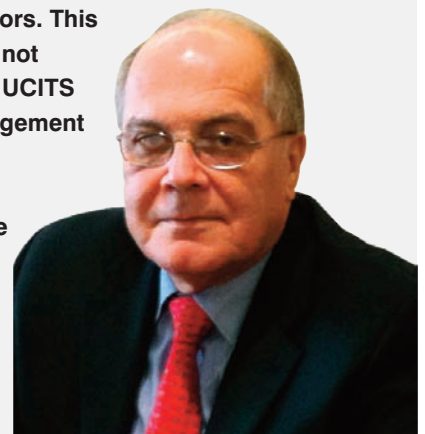
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Second, we needed to create a European domicile, which would be different from the other European domiciles. We created the Professional Investor Fund Regime with three classes of qualifying investors. This allowed the administrator – or the manager - to be in any recognized jurisdiction, and not necessarily in Malta. Because we were trying for the domicile, we borrowed from the UCITS Directive; since UCITS allows the fund to be self-managed we allowed fund self-management as well.

In May 2004, we had about four hedge funds; today, between funds and sub-funds, we must have registered over 500, some open, some closed. And the net result is we are about 420 or 430. There was a lack of service providers and administrators, but that will be rectified by the end of this year.

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The reasons were valid at that time; one important reason was that we are entering the European Union, which was then using the UCITS III version; we had no time to go through the process of UCITS I all the way to UCITS III; one cannot do that shift overnight. Also from a geographical point of view, it seemed that Luxembourg was the home of UCITS.

However, soon after entering the EU, we had a platform from Barclays Capital, which gave us endless headaches in setting up as it required some special regimes which no other country could satisfy; we discuss that with the EU Commission, with CESAR. Operations then started. The platform is self-managed on the basis of having a custodian here and a sub-custodian in Dublin; the relationship sometimes does not work quite well.

Two years ago we saw the entry of the UCITS that built up such a momentum that last year we seemed to be unable to capture the business. Big companies came here wanting to establish UCITS but the issue was a lack of custodians in the country.

That is the reason why ML Capital's platform went to Dublin.

Now with the new hedge fund Directive, the custodian must be in the domicile of the fund and that started to cause us endless problems. However, we negotiated on that derogation and so that for the next four years, custodians outside Malta can provide services into Malta.

However, by the end of this year there will be a global custodian. As with the usual herd instinct, one will follow the other.

Dublin felt that with all the restrictions on the custodianship, more business will come to Dublin, or Luxembourg. When the EC finally relented and started moving, the discussion focused more on the third countries, which is a bit of a fudge, because largely the managers are looking at private placements and actual passporting; issues like the responsibilities of custodians are not clearly defined within the Directive.

James Sanders

I am skeptical in the UCITS format. It could generate assets as a retail product if distributors are good at their job. But in the end, they are very expensive, super-restrictive, and will incur a large liquidity penalty, and when the last dumb-money has bought, they will fizzle out. Look at the closed ended funds in London. They tend to trade at a discount and most are unwinding. I am reminded of the hedge fund replication and the 130/30 strategies that had a lot of hype and went sideways and nowhere.

Prof. J. V. Bannister

130/30s were banned in Europe by the European Commission.

James Sanders

Yes. I have looked at the managed account platforms such as Lyxor, and Madoff would not have happened on such a platform. However, I would also argue that if you do not permit self-administered funds, you might not have had that problem either. The managed account platforms have underperformed the funds themselves by 3-4% a year and that is tremendous over any lengthy period of time.

I am worried that the UCITS are relatively expensive and restrictive as managers have to look over their shoulder at liquidity. There is a manager out there who would like to allocate his funds to the best ideas, but if one of them is too illiquid, he is going to skip number two or three and he is going to put number 12 or 13 in. It is just not going to perform as well.

There are lots of ways to protect without making it rules-based, maybe more principles-based.

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James Sanders

Ronnie Tanti

Most retail investors who were invested in long only strategies saw the value of their portfolio drop by something like 50% over the space of less than one year as the markets tumbled due to the credit crisis. The long/short strategy is more suited to provide returns in all market conditions, unlike the traditional long only strategy, which only makes a profit when markets are moving higher.

The UCITS revolution allows investors access to managers who can actively short stocks and hedge a portfolio; however managers with long and successful experience of running long/short equity hedge funds are in short supply.

ML Capital is aware of this trend and has recently created a new UCITS III umbrella structure domiciled in Ireland - MontLake UCITS Platform plc.

Pegasus UCITS fund was the first fund that was launched on the platform on 1st October 2010. Pegasus has always offered investors a high level of liquidity, transparency and stable returns over a variety of market conditions. David Yarrow and Angus Donaldson will co-manage a UCITS compliant derivative of the 13-year old Pegasus Fund, which employs a UK long/short equity strategy.

Joseph Taussig

There are better ways to provide liquidity without sacrificing performance and without the high frictional costs or regulatory restrictions of UCITS. Buffett showed the way 40 years ago. Buffett was actually a long/short manager for 13 years before he went into Berkshire Hathaway (with only \$70 million of capital) and it has served him pretty well since. One of the reinsurance companies that we helped to start has over \$1 billion in a long/short strategy. Over time it has outperformed its benchmark funds by 8% p.a., provided better liquidity (about \$3 million a day), and better tax-efficiency than funds run by the same manager. Delivering that capability from a manager's standpoint in a UCITS structure could never be as good.

Ronnie Tanti

I think the market is big enough to support both less regulated hedge funds as well as the more regulated UCITS. Many investors - both individual as well as institutional - would like to have access to alternative investments, but up until now have been unable to tap this market due to lack of transparency, diversification and robust risk management structures. UCITS III addresses most of these key issues as managers need to comply with a minimum set of standards in order to qualify for UCITS III. Fund managers are also aware that a well run platform relieves a lot of the operational burdens (dealing with regulators, etc) whilst satisfying institutional and professional investor demand for better oversight and control, coupled with ongoing due diligence. Operational complexities and distribution challenges also make a stand-alone UCITS platform an unviable option for most hedge funds.

The platform provides investment managers with a turnkey solution for launching a UCITS fund under its umbrella structure. Typical time to market is 6-8 weeks with the platform offering immediate access to a wide range of investors through ML Capital's distribution network. Funds placed on the platform by ML Capital will benefit from top tier service providers including CITI for custody, administration and trustee services, and KPMG for audits.

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Ronnie Tanti



Raymond Busuttil

Indeed, we have woken up to the fact that the hedge fund industry of three years ago is finished and the hedge fund industry of today is a totally different market. Hedge funds are not exposing investors to huge risk today, with the regulation that is creeping into the industry. Some have realized that they need to migrate, like IIG did to some extent. A number of funds have migrated into banking, because there is an advantage over the way they have been doing business in the past if they are going to be regulated. So, some fund structures might as well become a bank if they are going to be regulated, rather than remain a fund.

UCITS represents a hedge fund moving towards a retail client rather than a hedge fund remaining entrenched in the opportunities of the past. There is definitely a role for UCITS to develop together with other financial services in a more regulated market. This is the reality that we face today in the hedge fund industry.

Piotr Skoczylas

Coming back to Malta, the authorities here have created, and continue to create, a very attractive environment for investors. This includes an attractive cost base, accommodating legislation and a thoughtful, proficient and reputable regulator in the form of the MFSA. Before establishing an operation in Malta, we conducted our due diligence on a number of competing geographies, including among others London, Luxembourg, Ireland, Switzerland, Cayman Islands and the Channel Islands, and all in all Malta turned out to be the most attractive place for our fund to do business.



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Piotr Skoczylas

Being a start-up fund, we strive to convey clearly the core principles on which we operate: pursuit of excellence, dedicated service-orientation, unreserved compliance, uncompromising ethics, transparency and confidentiality. Thus, the fact that the MFSA is a proficient EU regulator is important for us. We believe that being subjected to oversight by the reputable and robust EU regulatory system, combined with being advised and audited by a Big Four accounting firm, creates an important prism through which we are looked at.

Once we had zeroed in on Malta, we experienced the very competent, collaborative and partner-like nature of the MFSA.

Benedicte Gravrand

Thank you for that input on UCITS. Now, some say that Malta is generally tipped to be the new hot spot for EU fund domicile. What are your thoughts on that?

Prof. J. V. Bannister

I don't agree entirely with that. When people say that, they do not know what they are talking about.

There are certain fundamentals that can never be broken, and when people talk like that they are talking in terms of numbers, and there cannot be a policy of numbers such as the numbers of funds coming into Malta. The first thing they do is compare numbers between Malta, Luxembourg, and Dublin. We can never achieve those numbers. Why? We are an island community. We are cut off. Luxembourg has the same population, maybe slightly bigger, but on the other hand, it has a catchment area of another million, and we do not have that other million who can come in. Dublin has a population of around 1.5 million - and 4 million in the whole of Ireland; there is a huge catchment area for people to work under.

What are the alternatives to that? The alternative is that you lower the standards, hire more people, and bring those people in from outside; and then you are no longer competitive and you lose the uniqueness of Malta. Or, you look at quality, get quality funds, and create a stable system where everybody is happy. The system then recycles itself as you go along; some funds open, some funds close, and the whole thing is now working. So, the wheel is turning very well and that is how we want it to stay.

Raymond Busuttil

I agree that Malta has to concentrate on quality. It is very difficult to talk about quantity. Being Maltese and knowing our limitations, volume does not fit our industry profile. We need to invest in the education for a specialist workforce to support the industry and this takes time. It has started already but like everything else, it will have to take its course.

We need years to train our young generation to become the upcoming professional people who can serve the industry. If you try to do it the other way, importing human factor from abroad, then it raises the cost and we lose our competitive advantage. We need a little bit of both: the experts who will teach the young generation, and the home-grown specialists.

I am sure the Maltese government knows this and Professor Bannister is doing his utmost to hammer in the need for education towards that sector.

There are several factors that are important for people who come to Malta, but the secret to our success, as Piotr was saying, is the approachability of the regulator. It works both ways, because you cannot regulate somebody who is a name on a paper; you regulate effectively by knowing whom you are bringing in to the industry and whom you are licensing.

It is a partnership where each side of the equation knows his place. In a partnership, we do not allow everything - we have to be careful, we have to regulate, because otherwise we lose the edge again. We have to be very careful that the regulator stays on that platform and the participants in the market know their place as well. Through reciprocal and mutual respect between the participants and the regulator, a common goal is reached. If the industry maintains its high level of standards, it remains attractive for serious companies to come to Malta - which Malta wants to attract.

At the same time, Malta itself needs to grow this industry. So, we have to be receptive, but we cannot be complacent.

Piotr Skoczylas

Let me add an important point on the regulatory approach in Malta: a recognition process by the MFSA is as sophisticated and as onerous and methodical as the UK FSA process, and so it should be.

And in addition to the robust regulatory system, in terms of attracting a professional expat workforce to Malta, I think there is new legislation that is going to kick in with the upcoming budget, which will establish a new tax regime for financial services' expats.

Prof. J. V. Bannister

It is going to be more than attractive.

Joseph Taussig

Piotr's comments about the collaboration in Malta are correct. I spent many years in Bermuda helping to build the insurance industry there. Often, you would run up against problems. The regulators often helped us but there are just so many permutations and combinations of things out there and no regulatory book can cover them all upfront. When rules are not clearly defined, it is inconvenient.

The MFSA, on the other hand, has been extremely helpful in taking a very practical view of how to help you when something has not been clearly addressed - as long as it makes sense economically.

During the financial crisis, Malta had no bank failures; its very strong banking system looked at the crisis as an opportunity rather than shutting down. In almost every other place we looked at, everybody went into hunker mode.

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Malta reorganized the MFSA at the beginning of this year into an authorization and supervision body, which made sense. Compared to Switzerland, which is my home country, UBS' problems took up so much of the regulators time that they could not focus on new licenses. In Malta, if the supervisors are busy, it does not affect the pace of approving new licenses.

Piotr said onerous, but I just say thorough - and this is exactly what you would want the licensing procedure to be. You do not want cowboys destroying a reputation.

I know of, at least, three or four fund managers that have set up banks here although one is technically not a fund manager. They have been quite aggressive at building their business, took over a small bank a little over a year ago, and the last balance sheet I saw showed about €1.4 billion, up from €5 million less than a year and half ago.

Audley Capital, which is an activist manager in the UK, has a joint venture called Audley Gilroy, which just put €50 million into an insurance company in Malta called Grafton, which has, in insurance speak, a 50% quota share with Berkshire Hathaway. That is about as a high quality name as you can have in the insurance and reinsurance business; it means that every piece of business that Grafton writes, Berkshire Hathaway takes half the risk.

Joseph Taussig



Malta reorganized the MFSA at the beginning of this year into an authorization and supervision body, which made sense. Compared to Switzerland, which is my home country, UBS' problems

took up so much of the regulators time that they could not focus on new licenses. In Malta, if the supervisors are busy, it does not affect the pace of approving new licenses.

Piotr said onerous, but I just say thorough – and this is exactly what you would want the licensing procedure to be. You do not want cowboys destroying a reputation. I told Professor Bannister a long time ago that I will be one of the fiercest defenders of Malta's chastity in the future. You do not want any corners cut; somebody actually works hard at checking backgrounds for example, so that it compresses time and it eliminates a lot of uncertainty as to what you are trying to accomplish.

You have a very proactive environment here trying to get things done; the evidence of that is in the several sectors that are building right now; lots of funds now are re-domesticating, but managers are actually setting up here. Ray is on the Board of four managers of over \$10 billion in assets. These are serious management companies setting up here.

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Piotr Skoczylas

You mentioned that you tried to set-up banks in the US and in Switzerland, and you ended up setting up two in Malta, is that correct?

Joseph Taussig

Correct.

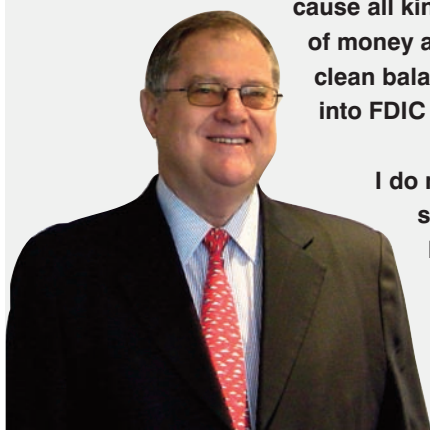
Piotr Skoczylas

Please tell us more about this.

Joseph Taussig

In America, we hired a lawyer who had been the General Counsel of the FDIC until Obama's inauguration to help us set up banks there, and then she had to resign (that is what happens to Presidential appointees). A few months later, she figured out that FDIC was not issuing any licenses; there was no formal statement about it because that would cause all kinds of political issues. But the reality is the FDIC had been worried about running out of money and the last thing they wanted was a healthy bank with no legacy problems and a clean balance sheet, competing for the "good business" and end up tipping marginal banks into FDIC administration.

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I do not think the US has authorized any banks in recent times; there have even been several cases where private equity funds or hedge funds tried to take over troubled banks in America and were rejected. In other words, arguably some of the smartest people in the financial services businesses were not able to go in and solve problems that were readily identified.

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Switzerland is a little bit different. It was so preoccupied by several things, like UBS, the tax problems with the US, and Madoff. Madoff, in particular, hurt a lot of the Swiss private banks.

Piotr Skoczylas

Well, and to go back to Malta, the financial sector in Malta appears to be robust, despite the continuing turmoil in the global financial markets. I think the World Economic Forum's Global Competitiveness Index 2009-2010 ranked Malta 13th out of more than 130 countries for its financial market sophistication, while the banking system was reported to be the 13th soundest in the world.

Prof. J. V. Bannister

There was a new Index, which came out recently and it is now ranked number 10.

If you look at last year's index and this year's index actually it is around 5th, because the countries from number 5 to number 13 and from 5 to 10 have all the same score. Unfortunately, then they rank them in terms of assets in the banks. So, Malta is already low, it is at the bottom of the pile. What is interesting, and people seem to ignore it, is that Malta always scores the highest in Europe in accounting and reporting standards. This year, it ranked number 8, the previous year it was 12

Piotr Skoczylas

This adds to the whole notion of why investors come to Malta – which is, among others, to have an EU regulator's oversight in the country which has the reputation for its robust regulatory regime and financial soundness, as well as the accommodating legislation.

Prof. J. V. Bannister

By which route did you come here? Did you know somebody who introduced you to Malta?

Piotr Skoczylas

We read a lot about various jurisdictions and then compared them diligently. We called a local office of a Big Four accounting firm who helped us get introduced. I flew here and met with the MFSA officials. That is how we got introduced to Malta and the MFSA.

Prof. J. V. Bannister

It is good to see it is an independent assessment.

Piotr Skoczylas

It was a totally impartial bottom up process. We put together a thorough side-by-side evaluation of various jurisdictions and Malta came out on top for us. To sum it up on a lighter note: if it were not for the extremely loud and frequent summer fireworks, one would have in principle hardly anything to complain about in Malta [smile].

Prof. J. V. Bannister

But I can tell you there is one manager who came here for the fireworks.... He lives next to a fireworks factory.

Benedicte Gravrand

James, you have just started a new business in Malta. What has it been like for you?

James Sanders

Starting a business here is very easy, very efficient, I agree with what has been said so far. Our clients are banks, we raise deposits for them. The number one factor is how easy it is for a Maltese bank to raise deposits. If you do not know the jurisdiction and you do not know the history, you might think it is a country in the Mediterranean, close to Italy and to Greece. For first impressions, it does not look too good, which is unfortunate, but this is how the world is.

The reason we came down here is because we saw a lot of intelligent people, a lot of funds, a lot of structures in the banks, and we saw an opportunity to help them raise deposits. We are able to offer marketing and PR within Malta, but also across the EU and especially in the UK, where we have the majority of our expertise. With passporting we are able to reach from 400,000 people in Malta to millions across Europe.

Once we have the banks in place, we are a cheerleader of Malta; it is a very easy job, and Professor Bannister, the MFSA and the government have made it easy for us. We are out there telling the story, and educating. Malta is a strength and we are actually proud of the jurisdiction, of the banks that are coming here, our clients.

Raymond Busuttil

James has touched upon a factor that is very important: We must not forget that it took a lot of time and effort to build the perception of Malta as an International Financial Centre of high repute.

When I started marketing Malta, it was as a banker. I used to spend 75% of my presentation time explaining where Malta is, its political system, how stable it is, the language, the professional bodies of Malta. From what I have gathered and even from today's discussion, that message has finally gone through, because we are not discussing those issues any more.

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A very important factor is that we are now a European Union country. We do not need to talk about homogenous laws anymore, which was important in 1994 and 1995 when we were going through the process to join the European Union; Malta managed to overhaul all its commercial laws, all its relative legislation in a couple of years, which was remarkable. Before then the laws here were archaic, with grey areas and unknowns, but after the overhaul of its commercial legislation, Malta was suddenly on top of the situation with a legal system that is probably the envy of other European countries.

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We have come a long way; we do not really need to talk about the basics; now, we can go into details about Malta's services and delivery. But we still need to go further. Being a Maltese, I like hearing constructive criticism and what others think about us.

James Sanders

Something I forgot to mention earlier is that Malta has an objective of financial services becoming 25% of GDP by 2015; that is roughly double what it is today without the rest of it shrinking.

They are on track for it. They are doing an awful lot work to build a regulatory infrastructure. Apparently, courses are being set-up at the University, which is trying to get people to come back.

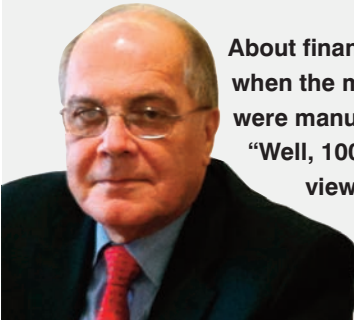
Joseph Taussig

Repatriation, oddly enough, is a major trend in the world, but it is not well recognized. We encourage young Swiss to go to London or New York, get experience and then come back. The ideal is what I watched in Bermuda for more than generation: young Bermudians can now take a place in the insurance industry, because they have been properly educated and trained, whereas 25

years ago, when the insurance industry was starting out, they could not. And they are much more stable than expatriates. To some degree, the ability for Malta to achieve this will keep a lot of the young people from migrating.

Prof. J. V. Bannister

About financial services becoming 25% of Malta's GDP by 2015: this all started about 15 years ago, when the minister made a statement that they would like to see four pillars in the economy. These were manufacturing, tourism, financial services, and other services. And some bright journalist said, "Well, 100 divided by four is 25%." Then you ask what this 25% means and they do not know. My view is that it will be indirect intermediation.



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Prof. J. V. Bannister

At the last count, direct intermediation is around 7%, which is the same level as the UK. The question is how much indirect mediation there is: we do not know. It could easily be 10%, because non-bank interest, lots of Treasury management companies are not accounted for. There are also new entrants, accountancy firms becoming big, laws firms, investment-type companies that are not licensed. There is a whole lot of un-licensable activity, which is contributing to the growth of the sector. 2015 is a long way down the road; it will be much earlier.

Benedicte Gravrand

Where is the Malta hedge fund industry heading?

Prof. J. V. Bannister

Being in a European jurisdiction, the industry essentially has to follow the global trend. I would ask where is the Malta funds industry heading - not the hedge funds industry specifically - because of the UCITS space. Certainly hedge funds will continue to grow, simply on the basis that the regime is diversified.

We see more service-type companies; now we have good administrators and more are coming in. The industry will grow externally in the sense that external managers will set up funds here also driven by more regulations coming in, in terms of creating equivalence between third countries and European members states. We anticipate more managers establishing operations and funds here.

I think the EU hedge fund Directive is fair on the third countries, particularly Cayman, with whom we enjoy a very good relationship, and Bermuda as well.

I do not think that the managers that are here will essentially bring the funds, unless the domicile of the fund is driven more by investors than the actual manager. Some of the managers have funds and that is why others come here, but they operate in different directions. They came here largely as a result of them needing another location. The managers here are the right size for this country, they are good names, they hire people, and we have recently started seeing trading screens, and people doing trades from here. The industry is developing.

Joseph Taussig

Something has to be said about the wrong-headed theory about tax havens. For example, Bermuda's tax receipts per capita are among the highest in the world. They just do not raise them through income taxes. The issue of raising taxes is to provide local services, not just to make people feel good elsewhere. No company really pays a penny in income tax, their clients do. Malta has, what America would call, a comprehensive tax regime. Malta has tax treaties with how many countries, professor?

Joseph Taussig

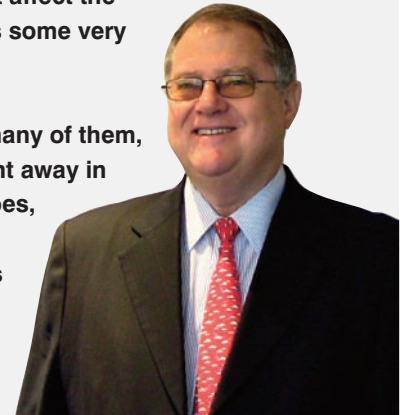
So, Malta has now tax treaties with 55 countries, also a new one with the US that was ratified by the US Senate, signed by President Obama, and goes into effect on January 1st, 2011. This means that Malta is not regarded as a tax haven. However, the imputation system, which Malta adopted from the British and which is blessed by the EU, means that non-Maltese shareholders can get a refund of the taxes. In other words, the company pays a 35% income tax, but shareholders that are not based in Malta can get a refund that generally makes net taxation 5% in Malta; that is something that is very attractive to the hedge fund management community. It does not affect the funds much, because most regimes, even in the US, do not tax funds directly, but it has some very interesting ramifications.

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American hedge fund managers, for example, could defer their fees for years and for many of them, as much as 80% of their wealth was in those fee deferrals. That fee deferral system went away in 2008. The current US tax law is expiring - unless Congress does something. And if it does, the harmonization of dividends and capital gains that occurred about 6 or 7 years ago goes away. But they may continue to harmonize and if so, most of the big US managers will consider setting up their offshore fund management business here to take advantage of that imputation system.

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Prof. J. V. Bannister

In the imputation system, everybody is entitled to the risk. The refund is given to an individual, and the individual has to re-declare and is then re-taxed in his country.

Joseph Taussig

Adding to the professor's comments, if you set up in my country (Switzerland), the effective tax rate for the company and the investor would more or less be the same as for Malta. The difference is that Switzerland keeps all of the proceeds, whereas in the case of Malta, the U.S. ultimately gets most of the proceeds.

Benedicte Gravrand

Thank you for your input on these vital aspects of Malta's tax system. Do you have any more observation on setting up shop in Malta?

Ronnie Tanti

I come from a banking background where Maltese banks always enjoyed a good name in the market. Over the last few years, that I have led the local office for ML Capital, I have been

involved in setting up two fund management companies in Malta. Two years ago we set up a Luxembourg regulated professional fund that invests in Forestry whilst for the past nine months I have been involved in setting up a UCITS III Umbrella fund in Ireland. Both companies are managed by financial management companies set and regulated in Malta by the MFSA.

We can say from personal experience that Malta offers fund managers a strong regulatory and legislative framework, whilst the MFSA is a dynamic and flexible regulator. The industry is also supported by reputable, yet very reasonably priced professionals.

Piotr Skoczylas

I want to echo the point about the business services infrastructure. In addition to the robust regulatory and legislative regimes that we discussed, there is also the whole infrastructure that one needs in order to operate. When I came here for the first time and had meetings with advisors, we received nothing short of excellent service from a local office of a Big Four accounting firm that we work with, and also from other people. And this has continued ever since.

Prof. J. V. Bannister

What you should remember is that for a long time - although now it is has gone into reverse gear, these firms were taking our accountants from right under our noses and employing them in the their Dublin and Luxembourg offices. It used to amaze me when hearing somebody from Ireland saying that Malta does not have enough accountants; I would always say they are all in Ireland.

James Sanders

But the good thing is they come back.

Raymond Busuttil

The good thing is that when they repatriate, we have got skilled labor that is well trained for the industry. The hedge fund industry in Malta is solid and continues to be sustained by the training that the Big Four firms give, and by lawyers and accountants who go abroad and come back with real exposure to the industry.

To answer the question about where the hedge fund industry is going, I would look back to the past three years when I became involved with it. Back then, a lot of companies had just come to Malta, not knowing what their future would be in Malta, but they definitely set out with a purpose. That initial purpose tended in instances to be a bit shallow as they just needed to justify their presence in Malta. Very quickly, however, quite a good number of them realized the potential of having a real operation in Malta and in most cases, they have now rented offices and started employing people. The hedge fund industry is set to continue growing in this direction.

Prof. J. V. Bannister

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