BANKING

GCC private banking 'opaque', says new report

Private banking in the GCC is complex, fragmented and opaque and is set to remain so, according to a new report by Insight Discovery.

The study showed that there are 61 private banks in the region, making it a very competitive market.

It was found that those 61 institutions targeted either high net worth individuals or mass affluent customers, but rarely both.

The number of private bankers employed by each organisation in the GCC ranges from one or two to well over 50 and all of the international private banks in the region have a base in Dubai.

Nigel Sillitoe, chief executive of Insight Discovery, said: "We are emphatically not the first researchers to look at the GCC's private banking sector. We are, though, probably the first to ask this question: 'who are the region's 61 private banks?' Although the industry is notoriously opaque, it is still possible to gain clear insights into the trends that matter.

"There are undoubtedly opportunities for players with the correct strategies and ability to execute. However, there are also challenges – specific to the region – which will likely persist indefinitely. These are the issues that we examine," he said.

The report found that most of the business handled by the private banks for GCC clients is booked through IFCs that are outside the region.

Private banks which have either closed or sold their GCC business operations in the last year include Clariden Leu, Lloyds TSB, Merrill Lynch, Morgan Stanley, Pictet and Vontobel, the report notes.

Those that have opened up GCC operations include Arbuthnot Latham, LGT and Nedbank Private Wealth.

Approximately three quarters of the private banks have minimum account sizes of $1m plus and a quarter of the private banks in the region are targeting clients in Saudi Arabia or the Levant. ●

THE ANALYST

A new world of transparency

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Implementation of the US Foreign Account Tax Compliance Act ("FATCA") – expansive new withholding and information reporting rules aimed at ensuring that US persons with financial assets outside the US are reporting and paying US tax – is drawing closer. Other countries have also indicated that they will look at implementing similar regulatory requirements to encourage global tax information exchanges. The implication of the FACTA regulations on private equity and hedge funds is significant. Virtually every non-US private equity and hedge fund will have to comply with the regulations because such funds will likely be considered foreign financial institutions ("FFIs") under the rules. FFIs are required to enter into FFI agreements directly with the US IRS or comply with an intergovernmental agreement ("IGA") between their local jurisdiction and the US IRS. Failure to comply could result in the imposition of a punitive 30% withholding tax on certain US source payments.

There are a number of jurisdictions that have signed or indicated an intention to sign an IGA with the US. However, it is worth noting that no Middle Eastern countries have indicated such an intention, meaning funds in these jurisdictions will be subject to the regulations, which come into effect from 1 July 2014.

So what does this mean for your funds? Firstly, you will need to determine whether or not your fund is incorporated in a jurisdiction that has an IGA in place with the US as the rules differ between the regulations and the IGAs. You'll also need to determine if the jurisdiction has any other IGAs or rules in place that have similar requirements. Funds will need to be analysed under the regulations or IGAs to determine whether they fall under the FFI definition, which is a foreign entity that primarily engages in a business of trading financial products, performing portfolio management, or investing, administering or managing funds, money or financial assets on behalf of customers. Non-US private equity and hedge funds will typically fall within the definition and (subject to certain exceptions) may be required to register as an FFI with the US IRS, and comply with the identification and reporting requirements of US (and other countries) investors either directly to the US IRS or to local authorities pursuant to the relevant IGAs.

Under the regime, private equity and hedge funds will be required to undertake substantial work to determine their FATCA status and review existing AML/KYC controls and procedures to ensure their due diligence information on all investors is sufficient to determine the US status of investors and comply with the new regulations. It is important to note that even if a fund's offering documents do not allow US investors and it does not invest in the US, the rules will still apply if the fund meets the definition of an FFI. The fund will need to review all existing investor accounts and obtain the required documentation as reporting is required for non-compliant investors.

At Maples Fund Services, we recognise the global impact of FATCA on the investment funds industry – which is why we have introduced a solution through the leveraging of our technology to accelerate FATCA readiness and compliance for clients around the globe. ●

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