

The Guernsey Protected Cell Company ('PCC')

AN INNOVATIVE AND FLEXIBLE STRUCTURE IDEAL FOR PROTECTING ASSETS AND RING-FENCING LIABILITIES

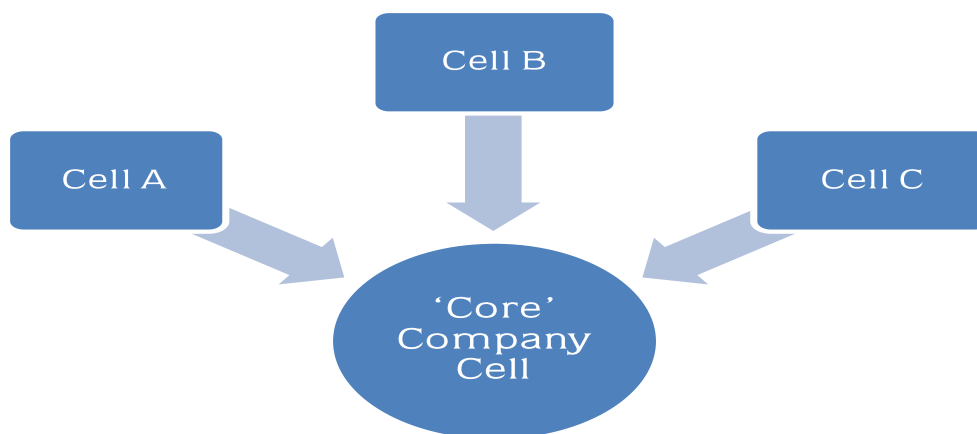
INTRODUCTION

A problem faced by many corporations and wealthy individuals alike, is how to segregate and safeguard valuable assets on the one hand from their other assets that have the potential to attract serious liabilities.

One excellent solution is the Guernsey Protected Cell Company ('PCC'), a cellular corporate structure that allows assets to be held within individual cells. The assets of any one particular cell are only available to the shareholders and creditors of that cell – creditors of another cell having no recourse against them.

The PCC was introduced in 1997 and was initially the sole domain of vehicles carrying out financial services activities, such as collective investment funds, captive insurance and securitisation. However, the Guernsey authorities have now relaxed the regulations and this will allow the PCC to be used for a range of commercial non-financial activities.

BASIC STRUCTURE OF A PCC



The basic structure of the PCC is straightforward. The 'Core' company (established and managed by a Guernsey financial services provider such as Louvre Trust (Guernsey) Limited) is able to create cells. These cells are then made available to clients, thereby saving them the expense of establishing the PCC themselves. Individual assets and liabilities (or assets with the potential to attract a liability on the happening of some future event) can be placed into the cells.

A straightforward example of their broader application may be in the area of property ownership. The wealthy individual, or the manager of a Property Fund, investing, perhaps worldwide, in land for development, property renovation or existing rental property, can isolate the risks associated with each investment.

These may be environmental, from the previous or new land usage (thereby ring-fencing other valuable property in the portfolio from any litigation claims), or as a result of a collapse in the demand for a certain type of property leading to the insolvency of one part of a Property Fund.

Examples of the diversity of uses will include – Umbrella Funds, Joint Venture vehicles and nominee companies to separate the assets of each beneficiary.

Although there will still be some restrictions, the possibilities for the use of PCC's now appears endless. Each application does need to be approved by the Guernsey authorities and we will be pleased to make the application on behalf of any clients and to provide, administer and manage the cells on their behalf.

GUERNSEY PCC - KEY POINTS

- Ability to separate assets and liabilities
- Statutory protection of one cells assets from the creditors of another cell
- Can be used for simple asset holding
- Flexibility and relaxation of rules governing potential uses
- Subject to consents, now available to the private client as well as the corporate client
- Cost effective and easy to establish and use.

Guernsey has also adopted the innovative Incorporated Cell Company (ICC) structure. An ICC has cells like a PCC but they are separately incorporated and distinct legal entities, with potential advantages in terms of added protection and flexibility.

The attraction of this added flexibility has even more resonance in Guernsey where the legislation has been tailored so that the restructuring provisions of PCCs and ICCs include:

- An ordinary company can convert to a PCC or ICC
- A PCC can convert to an ICC
- An ordinary company can convert into an Incorporated Cell (IC) and become part of an ICC
- An IC can leave the umbrella of the ICC and convert into an ordinary company
- An IC can be transferred between different ICCs
- Two ICs can quasi-amalgamate
- Share capital can be issued in respect of the core and cell capital in respect of individual cells
- Individual cells can be wound up without prejudicing the healthy parts of the structure

FUND STRUCTURING

Guernsey is not only at the forefront of cell company developments but the Island has a broad range of service providers who are experienced and skilled at utilising them to provide exceptional fund structuring solutions for their clients. Louvre Fund Management Limited and Louvre Group (Middle East) Limited are happy to assist in providing such solutions.

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