

Protected cell companies: A tool for managing an asset portfolio

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Protected Cell Companies (PCCs) have existed in Guernsey for more than ten years and have been widely replicated in other jurisdictions. Most people are familiar with their traditional uses for captive insurance and collective investment schemes - but how are they being used beyond this?

At Collas Crill we have seen an increase in the use of the PCC as an effective tool for clients looking to effectively manage a portfolio of diverse assets.

Using our fictional client "Joe Bloggs", we have highlighted below some of the reasons why PCCs are being used in this way.

Joe Bloggs is the beneficial owner of a Guernsey limited liability company that he uses to hold the following assets:

- ***A collection of rare artwork***
- ***A 16th century French chateaux***
- ***A New York penthouse apartment***
- ***A Rolls Royce Silver Phantom***
- ***A portfolio of stocks and shares***
- ***A Scottish goldmine that has been in the Bloggs family for over hundred years***

Joe uses the company to employ his driver, personal chef and butler.

The French chateaux is the subject of a lease between the company and Mr Pierre Henry.

A recent accident at the goldmine has left a miner badly injured.

Limited Liability

As the name suggests, a limited liability company allows its beneficial owners to limit liability, in most instances, to the assets it holds. Joe currently holds all of his assets in a single company. This could be a risk as his company holds a diverse range of assets and liabilities.

Of particular concern to Joe is the goldmine. The recent accident is threatening to turn into a legal action by the injured miner against the company and Joe is concerned that this may leave his other assets in the company exposed. The incident has focused his mind to consider the other potential liabilities that could arise in the future, including from his three employees and his tenant Pierre.

A PCCs' cell structure, or a group of individual companies, would allow each of Joe's assets to be segregated and ring-fenced from his other assets. A liability attaching to one (eg the goldmine) would not put all of his other assets at risk.

Joe appreciates the benefits of a limited liability company, but he is not comfortable with the idea of a sprawling group structure of individual companies. The PCC appeals to him because it remains as a single legal entity while allowing him to still separate and individually protect his assets by placing them in separate protected cells.

Flexibility

Having made the decision to convert his company into a PCC, Joe now appreciates the flexibility that a PCC offers. If required, a new cell can be created by a simple board resolution.

Accounts can be prepared as consolidated accounts for all cells or completed on a cell by cell basis.

Recent changes in Guernsey law also allow for an individual cell of a PCC to be spun out of the structure and converted into a standalone limited liability company.

Joe's daughter is moving to New York to become a fashion designer. He intended to leave it to her anyway, so he wants to gift her the penthouse now so that she has somewhere to live in the city. The penthouse is held within a single cell of the PCC which will be converted into a new Guernsey company and the shares of which will be issued to his daughter.

Pierre White currently leases the French chateaux, but he has made no secret of his desire to purchase the property permanently. If a deal can be reached, the same conversion process will be used so that the property can be sold by means of a share sale of the entire issued share capital of the converted standalone company.

Reduced Management Burden and Costs

Most of the benefits that Joe enjoys through the use of a PCC structure could have been achieved by using a group of companies. However, there are cost savings to be had with a PCC over a group of companies.

Joe's company is administered by an experienced Guernsey corporate services provider. Unlike with a group structure, that corporate services provider only charges Joe for the provision of one registered office address, the provision of a single board and it pays the Company Registry for just one annual validation a year.

When a new cell is required the board can complete a simple board resolution to create it. To incorporate a new group company could cost in excess of £1,000 in fees and requires an application to the Company Registry. Each new company would also increase Joe's annual overhead with the corporate services provider.

PCCs are flexible corporate entities and portfolio management is just one of the alternate ways in which they can be used.

If you would like to discuss how a Guernsey PCC could be of assistance to you or your business, please contact Collas Crill.

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