What is a Protected Cell Company ("PCC")?

A Protected Cell Company ("PCC") is a limited liability company and has a board of directors. Like a traditional company a PCC has a single separate legal personality, it is distinct from both its members and directors and is subject to the provisions of the Isle of Man Companies Acts. However it differs from a conventional company in that a PCC may create one or more cells, the assets and liabilities of which are segregated from the assets of the PCC itself (being the "core") and from the assets and liabilities of other cells. The 'core' is the non-cellular assets of a PCC.

A PCC may, in respect of its cells, create and issue cell shares, the proceeds of which will form part of the 'cellular assets' attributable to that cell. A cell is established by a board resolution and so is a quick and straightforward procedure.

The law is designed to ensure that third parties dealing with a PCC are put on notice of this fact. This includes requiring references be made to the PCC structure in the name, memorandum of incorporation, cell name and also notification to any party it transacts with. Thus the board ensures that it identifies to a counterparty that it is acting on behalf of a PCC, and identifies the cell in respect of which the PCC is transacting. The language usually used is "X" PCC Limited acting for and on behalf of "Y" cell.

A PCC can be thought of as being a standard limited company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept independent from all other cells. Each cell has its own shareholders allowing sole or multiple ownership of an entire cell.

The Board of Directors of a PCC have an obligation to keep:

• separate and separately identifiable assets of the core from the assets of each of the cells; and

• separate and separately identifiable assets of each cell from the assets of each other cell. In practice, this means maintaining separate accounts for each cell in which the assets attributable to each cell are clearly identifiable.

Usually cell shareholders will have voting and other rights which are restricted to matters relating to the cell. For example, cell shareholders are unlikely to be able to vote on resolutions in respect of the PCC which do not affect cell shareholders or in respect of matters relating to other cells.

In normal companies, the assets of the company are available to all creditors to satisfy debts. The key advantage of a PCC is that a distinction is made between the core assets and the assets attributed to each cell. As such, when a cell incurs liabilities in respect of the business it carries out, those liabilities will only be attributed to the assets of that cell. Creditors of a cell are not able to have recourse against the assets attributable to other cells or to the core assets and thus the assets

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of another cell or the core are referred to as “protected assets”. This enables a number of portfolios to be established in the same company but with fewer risks attaching to contagion of claims between asset classes or lines of business.

For further information on Isle of Man companies or any other Isle of Man company and trust administration services, please contact Julie Ronan on (01624) 676868

This publication is intended only to provide a brief guide. It does not purport to be comprehensive or to provide legal advice.

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