Ireland well-placed to service investors and managers caught out by post Brexit distribution change

With fund distribution strategies at the heart of fund managers’ post Brexit planning we asked our panel of funds industry experts, in the light of Brexit and international regulatory development, where they see the biggest areas of opportunity in developing distribution strategies. We also asked if Brexit would be a positive or negative for Ireland as a centre for the distribution of global funds in the long term.

Opportunities to develop fund distribution strategies

The changing map of European funds distribution has created uncertainty for the funds industry and is driving strategy shifts across the entire funds value chain. Our panel identifies a number of opportunities that this environment is creating including in the related areas of proprietary management companies and third party management companies. Strategies are also being strongly influenced by MiFID II - increased costs under the regime are encouraging the growth of larger institutions operating at lower margins - this is itself is also creating opportunities for example in the area of sub-advisory by 3rd party managers.

Tara Doyle, partner, Matheson:
At first glance, Brexit would appear to provide barriers to fund distribution, rather than opportunities. Particularly if there is a hard Brexit, which cannot be ruled out at this stage, the UK’s departure from the EU market will likely lead to fragmentation of the market as the current passporting system will not operate in respect of funds being sold into or out of the UK. However, from Ireland’s perspective there is an opportunity to play a more central role in fund distribution post-Brexit. While rules are not harmonised across Europe, many European jurisdictions require a financial services passport, whether under MiFID, AIFMD or the UCITS Directive, to market funds in their jurisdictions. With UK firms losing those passports as a result of Brexit, many managers and distributors are looking to Irish entities and EU branches of those Irish entities to implement their distribution strategies. There is an opportunity for Ireland to develop skills and expertise in this area, enhancing the overall Irish financial services offering.

“‘We are seeing private banks looking at the economics of their model and reducing the number of external funds on their buylist and increasing their focus on internal funds. This will create sub-advisory opportunities for 3rd party managers.”

Paul Traynor, Advisory Partner, EY Financial Services:

As a consequence of Brexit and MiFID II fund managers are having to look at their cross-border distribution strategies. There is an opportunity here for Ireland to travel up the value chain and to position itself as a natural pan-European distribution hub. We are seeing a number of managers set up mega-Management Companies with UCITS, AIFMD and MiFID permissions, but more could be done to ensure we don’t let Frankfurt or Luxembourg steal a march on us. For example, a substantial proportion of our funds are sold into the UK; we would do well to voluntarily begin to offer ‘Value for Money’ assessments across our fund ranges ahead of the Value Assessment mandated as part of the FCA’s Senior Manager and Certification Regime (effective from December 2018).

Ross McCann, Head of Fund Services Ireland, Alter Domus:
Certainly in terms of Brexit opportunities the short-term high levels of risk and uncertainty are forcing distributors to trigger their contingency plans, many of which involve using Ireland as their location from which to do business. In the long term, it is likely some form of agreement will be made between the EU and the UK enabling EU access for UK-based distributors, and vice versa. It is therefore important for Ireland to utilise the current climate and readily encourage and facilitate distributor setup and investment in local foundations/presences, which can then be built upon in the future.

Meliosa O’Caolmh, Managing Director Northern Trust, Ireland:
Regulation brings increased complexity that causes shifts in the distribution landscape, but this can create opportunities.

One shift happened in the UK with RDR and we are starting to see this in Europe with MiFID II. In the UK the banning of commissions saw traditional wealth managers become vertically integrated as both a fund distributor and manufacturer. Likewise on the Continent, we are seeing private banks looking at the economics of their model and reducing...
the number of external funds on their buy-list and increasing their focus on internal funds. This will create sub-advisory opportunities for 3rd party managers. With Brexit in mind, we are seeing managers looking at how best to deploy their sales force. Having boots on the ground, particularly in markets like France and Germany, can only be advantageous to the sales effort. Managers that are thinking about their sales strategy and how to deploy their teams, will be best positioned for asset-raising in the post-Brexit world.

Malcolm Pobjoy, Group Commercial Director, Alternative Investments, Vistra:

We see that many managers are looking to raise capital from investors across the globe. Regulatory changes such as the AIFMD are bringing clarity to the rules for fund distribution and are making it easier to distribute a single fund across multiple countries. Managers are leveraging the passporting function of AIFMD to distribute funds across the EU in a quick and easy fashion.

Mark Crossan, Senior Consultant, Bridge Consulting:

Ireland already offers a solid distribution platform for international asset managers as Irish funds distribute to 70+ countries. Brexit has raised a new distribution headache for UK firms. Any global or UK asset manager availing of a UK-based passport to market funds in Europe (e.g. under MiFID or AIFMD) faces the possibility that their passport will no longer apply if the UK is no longer considered part of the EU. The opportunity for Ireland is where a number of managers are opting to establish their own proprietary management companies in Ireland. The advantage this provides is that an Irish management company can be used as a vehicle from which asset managers can continue to passport their funds plus other services such as individual portfolio management/segregated accounts throughout Europe. A separate concern for UK Alternative Investment Fund Managers is whether they will be deemed ‘equivalent’ post-Brexit under AIFMD.

Both requirements are fuelling growth in Irish-domiciled third party management companies, with recent entrants from mainland Europe also establishing operations in Ireland. As the Irish market continues to evolve, substance is a key theme with the Central Bank and this is evidenced through its recent guidance on fund management companies which became effective from 1 July 2018.

Brian Higgins, partner, Dillon Eustace:

Brexit provides opportunities for Ireland (and other EU centres) with firms who are located in the UK seeking to retain access to EU markets and, in the case of UCITS funds, other global markets where UCITS are recognised and successfully sold. Consequently, we have seen an increase in the number of fund managers seeking to establish UCITS management companies, AIFMs and MiFID operations in Ireland. The EU Commission proposals in relation to cross-border distribution of investment funds should help to bring further efficiencies to fund distribution within the EU. However, nearly a year on after its implementation, MiFID II continues to be one of the most significant regulatory developments in the area of fund distribution at a European level. The increased transparency in respect of independence and costs brings increased pressure on fees, while the product governance rules have increased operational costs. This coupled with the focus of many regulators on fees, means that we will continue to see the growth of larger institutions that have the scale to operate on lower margins.

Fergus McNally, Partner, EV Financial Services:

At the time of writing, it’s still unclear as to what type of Brexit we will end up with. What is of critical importance for Ireland is to maintain a close relationship with the UK. We must ensure, through a fully functioning memorandum of understanding with the FCA, that mechanisms are in place to facilitate certain delegation of functions back to the UK as well as continuing to allow Irish Funds distribution access back into the UK market.

Jennifer Fox, partner, Walkers:

We continue to see a high-level of Brexit related work with managers and fund sponsors seeking to establish Irish management companies and investment firms to ensure full access to EU passporting rights to distribute fund products and manage assets. We have seen an increase in authorisation activity across all sectors, including a number of concurrent complex applications. This tallies with recent statistics on authorisations from the Central Bank, i.e. in the first half of 2018, 205 Central Bank submissions for the clearance of Non-EU authorised investment managers were assessed. This represents a significant increase in the number of submissions, and in particular, a 27% spike in submissions received in Q2 compared to the same period in Q2 2017.

On the product side, we see the establishment and continued growth of passportable fund products as presenting opportunities for manager’s distribution strategies. In particular, we see continued interest in ICAVs from US and non-EEA fund managers who see Ireland as an attractive European platform for distribution of fund products in the EEA and the ICAV as the vehicle for a viable global distribution solution. This is reflected in the increased interest in the

What are the top three things clients are saying to you?

‘I’m not sure there is in fact just three. Brexit is a huge topic of interest, obviously, albeit when you try to incorporate it into your investment portfolio, then it’s difficult to do so because you’re at the whim of the market. But closely linked to that is where we are in the market cycle, and we will have had a bull run for 10 years next year, so people are beginning to get a little bit nervous about how much further this has to run, albeit that there’s no huge headline risk on the horizon, except for Brexit.

‘But increasingly, clients are beginning to talk about protection within their portfolios, so if something were to happen overnight, how protected is my portfolio in that scenario, and if it’s not sufficiently protected, how might I address that?

‘And another continuing theme is that we experiencing lower returns for longer and what that means for the future. We may not experience a market correction, but we certainly cannot see very robust future returns from here so how do pension funds, in particular, who are trying to remain funded, operate in that type of environment?’

Ann Prendergast, State Street Global Advisors (Ireland)
number of non-EEA fund managers looking to set up global master-feeder structures, typically where the Irish ICAV is the onshore EU fund and can then avail of the EEA passport. In addition, we see a continued interest managers exploring parallel fund offering with Irish ICAV vehicles co-existing side by side with their offshore structures.

**Brexit, distribution and Ireland in the long term**

There has been a lot of positive momentum for Ireland’s funds industry in the run up to Brexit with a number of fund managers choosing to set up or expand operations in Ireland to counter the negative impact Brexit could have on their businesses. However, we asked our panel if Brexit will be positive or negative for Ireland in the long term. A large majority of our panel think that in the long term that Brexit will be a net positive for the Irish funds industry and can help to broaden and deepen the Irish funds industry’s skill-set.

**Furio Pietribiasi, CEO, Mediolanum Asset Management:**

Brexit will be positive over the longer term and will ultimately result in new competencies to complete the funds industry value chain in this country. We already have established competencies in product manufacturing, administration and oversight. We have some competencies in investment: good but not enough - Mediolanum is still hiring from abroad, for example. But we have less competency in global marketing, sales and distribution. Before Brexit, distribution was usually arranged through the branches of a UK ManCo. In the future that may not be possible and now the plan for asset managers is to run it from ManCos based here or other locations in continental EU. And because of regulation and their responsibilities, if distribution is to be managed out of an Irish entity, these ManCos will need resources with the necessary competencies and skills to meet the business development and oversight requirements of the various distribution channels. It will be a challenge and it will take some time but it’s the completion of the journey for the industry here.

**Tadhg Young, SVP, State Street:**

The State Street Brexometer for Q3 shows that more than half of institutional investors listed Ireland as one of the most attractive cross-border fund locations for asset managers. In addition nearly a third of institutional investors believe regulatory reporting issues is the area that businesses will need the greatest help with following Brexit. With Ireland’s solution-focused approach to addressing the issues faced by the financial industry, we will most likely retain our reputation as one of the best places to domicile and service investment funds - from a cost, product choice, distribution, investor protection, innovation and service delivery perspective.

“Brexit will be positive over the longer term and will ultimately result in new competencies to complete the funds industry value chain in this country. We already have established competencies in product manufacturing, administration and oversight.”

**Joe Duffy, Ireland Country Executive, BNY Mellon:**

We view Brexit as neutral for Ireland for the distribution of global funds in the long term. As with any change situation, Brexit will bring with it both opportunities and challenges for the financial services industry; the key will be preparedness. BNY Mellon has a solid footprint in the EU27 through our European bank and our branch network - in addition to our UK bank, and our US institutional bank. BNY Mellon in Ireland is an international business and our focus is on enhancing our capabilities to support our clients’ business priorities e.g. collateral management, FX, securities lending, capital markets and liquidity services. Ireland is an attractive place to do business with its pro-business environment, access to skills and talent, and robust regulation, and this will be as relevant post Brexit as it is today.

**Rob Childs, Head of International, Prescient Fund Services:**

UK investment managers of Irish regulated funds are preparing for changes in their operating model due to Brexit. Many UK managers are establishing entities in Ireland which will allow them to distribute those funds across the EU, post Brexit. However, flows into Irish funds may be offset by international managers establishing UK funds for distribution to UK investors, where previously those UK investors may have invested in Irish funds. But on balance we expect a marginal shift to Ireland.

**Michael Tuohy, Partner, Audit & Assurance Services, Mazars:**

UK fund managers are looking into ensuring access to the EU market post-Brexit through setting up Irish UCITS Management Companies (ManCos), establishing Irish AIFMs, appointing Irish AIFMs or broadening their product suite to include Irish funds. For many UK managers, Ireland as a location is a certainty but choice of structure remains ongoing as they navigate through Brexit. This will most likely result in the growth and strengthening of the Irish funds industry globally, which will in turn increase business, infrastructures and employment opportunities in Ireland. We have seen Credit Suisse and Citibank moving business to Ireland and more are considering or already in the process of moving to Ireland. As a centre for global funds distribution, this will entail not just strengthening our relationship with UK and the other EU-member states but also developing relationship with US, Canada, China, Japan and other non-EU states, further marking Ireland’s global footprint on the asset management industry.

**Ray Kelly, partner, EisnerAmper:**

Ireland is a natural home for UK investment managers that wish to continue to avail of UCITS and AIFMD passports post-Brexit and to retain the right to distribute into EEA markets. We have also seen over the last number of months, many US managers with distribution operations in the UK, establishing a presence in Ireland to safeguard their access to their European investors. Many investment managers in the UK who were taking a ‘wait and see’ approach are now more actively implementing their contingency plans and looking towards setting up their new EU base during a transition phase post-March 2019. Ireland is fast becoming a destination of choice for firms in this area. Ireland’s existing business relationships and close cultural links with both the UK and US mean that it is well placed to become the gateway for UK and US fund managers to access EU investors should there be a hard, or indeed soft, Brexit.
Evolution of Ireland’s funds offering

The continuing evolution and renewal of Ireland’s offering to the global funds industry has allowed Ireland develop into a world class funds domicile. We asked our panel of experts what their current priorities are for increasing the attractiveness of Ireland’s offering. We also asked our panel to assess the Central Bank of Ireland’s approach to funds regulation and what it means to Ireland’s competitiveness in attracting funds business. In the area of private equity fund we asked their view on the importance of Ireland updating its Investment Limited Partnership legislation.

The priorities

We asked the panel what they see as the next steps in enhancing Ireland’s regime for funds business. The improvement of Ireland’s offering in the fast-growing area of private equity is seen by most as the number 1 priority in this regard. The need for Ireland to ‘step up to the plate’ on regulation matters at EU level was also highlighted as a major priority to ensure, in the absence of the UK’s FS regulatory expertise, that legislative changes are proportionate.

Jennifer Fox, partner, Walkers:

A top priority for Ireland is continuing to innovate its fund product offering, particularly with progressing the amendments to the investment limited partnership legislation. Recent progress has been made in this regard with the government approving the legal drafting of the Investment Limited Partnership (Amendment) Bill, 2017, in respect of which the Irish asset management industry had played an active role in progressing. This will continue to make Ireland more attractive for various asset classes such as private equity or venture capital and in particular, those investors and managers who are more used to using partnership structures for their investments.

Ongoing consultation with regulators, so that asset managers can ensure there are no inefficiencies or burdensome rules which create impracticalities or increase charges, will be crucial to further improving the current regulatory environment.

Further, Brexit has seen a greater role being played by ESMA with the stated objective of reducing regulatory arbitrage across EU member states. This has resulted in an increased focus on substance and delegation back to non-EU jurisdictions. Ongoing consultation at European level, both by the Central Bank and by the Irish funds industry is critical to maintaining and continued enhancement of Ireland’s attractiveness as a funds location.

Melissa O’Caomh, Managing Director Northern Trust, Ireland:

Strategically, Ireland needs to continuously be positioned as the pre-eminent location for fund servicing, and particularly we need to ask ‘Why Ireland?’ with special focus on our friends, colleagues and partners in the UK for the next few years. The landscape is going to change and the benefits of our relationships with UK managers and investors need to be retained and enhanced. There is never a wrong time to assess how, as a servicing and domicile location, Ireland can refresh, update and re-position our legislative, regulatory and product offerings to continue the success we have enjoyed. Our footprint is the envy of many, and we cannot allow a fraction of complacency.

Malcolm Pobjoy, Group Commercial Director, Alternative Investments, Vistra:

Ireland has established itself as a market leading domicile and administration centre for hedge funds as well as aviation finance amongst other fund types. That is a great platform to extend into private credit and hybrid funds if it continues to develop its regulations to support closed-end partnership structures. This would help it become a favoured location for managers to establish substance within the EU for distribution. Critical to its continued success as a major fund distribution centre will be establishing itself at the leading edge of any arrangements to facilitate distribution into the UK of Irish domiciled funds post Brexit. There is also potential for Ireland to establish itself as a leader in KYC regulation and perhaps acting as a clearing house for investor due diligence that can be adopted by other domiciles.

Brian Higgins, partner, Dillon Eustace:

Without the UK’s input at EU level, it is important for Ireland to ensure that it is in a position to engage in the debate around any proposed new EU financial services legislation and seek to promote proportionate legislation (i.e. which protects investors while not adding an undue level of cost and burden which is ultimately not beneficial to investors). Last year we saw the government make a very strong pitch for the European Banking Authority to be located in Ireland. We need to ensure that this level of effort is maintained on a sustained basis with the necessary resources behind it in order for Ireland to be able to engage in a meaningful and proactive manner around EU legislative proposals which impact the funds industry. Domestically, it would be good to see procedures in place which ensure that legislation (such as the

Asset Management: the 20 year view

‘Globaly, if we step back and look over the next 20 years, geographically, I think Asia will continue to grow in importance and I think global asset managers like ourselves will, by necessity, have a bigger presence in Asia than we do now. Blue skies forecasting, Africa could well become the next Asia. Twenty years from now we could be talking about Africa the way we do about Asia now.

‘I also think the investment processes will continue to evolve, the utilisation of machine learning, AI, whatever label you wish to apply, will be much more in use. I don’t think it will be “instead” of humans, I think it will be much more a combination of man and machine, but with a much heavier use of that in normal course investment processes and normal course end-investor usage from that perspective – and in fact that horizon is probably less than 20 years.’

Tim Stumpff, chief executive, Principal Global Investors Europe.
ILP legislation) goes through the parliamentary process in a far more efficient manner. Financial services is an international industry which is very competitive and waiting lengthy periods for such legislation results in such products being located or serviced in other jurisdictions (which of course has a knock-on effect on the level of employment in the industry and the overall contribution to the State’s revenue).

Tara Doyle, partner, Matheson:
The most urgent outstanding development is the completion of the Investment Limited Partnership legislative process. We need a fit for purpose limited partnership structure to round out our product offering and ensure that real asset and private equity managers are attracted to Ireland as a domicile.

We also need to ensure that Ireland is properly resourced to deal with the increased demands on the jurisdiction post-Brexit. There is additional activity as a result of Brexit and the Central Bank needs to be properly resourced and supported to effectively regulate that additional activity. Ireland will also take on a more central role in European financial services regulation, given that the UK will no longer be around the EU table. We need to ensure that the Central Bank and the Department of Finance have sufficient resources to be able to lead on all of the areas of financial services that will be relevant to the Irish industry.

Mark Crossan, Senior Consultant, Bridge Consulting:
ILP developments will be important in Ireland in order to get a foothold on the Private Equity / Venture Capital ladder.

Use of third party management companies will continue to grow in the UCITS / AIF space as they become a mainstream solution for asset managers setting up new funds in Ireland. I believe a number of existing Self-Managed Investment Funds will most likely appoint Management Companies over time as well, as managers are electing to outsource fund governance and non-core operational activities such as detailed daily oversight of service providers. The historical trend for using Self-Managed Investment Companies seems to be coming to a close.

Fergus McNally, Partner, EY Financial Services:
The passage of ILP legislation is incredibly important to the development of Ireland as an asset management hub. One of the fastest areas of growth across all alternative asset classes is within the private equity/private debt space. Since the advent of AIFMD, we have witnessed a movement of Private Equity vehicles from Non-EU Domiciles into the EU, with Luxembourg the primary beneficiary of this. Despite the fact that many private equity managers have operations or vehicles in Ireland, and notwithstanding Ireland’s obvious servicing credentials for these asset classes, Ireland has not benefited like Luxembourg - by simply not being able to offer an appropriate PE Partnership structure.

Ross McCann, Head of Fund Services Ireland, Alter Domus:
Meaningful enhancement of our Private Equity platform. ILP legislation is a crucial piece of the jigsaw in the Private Equity sector’s offering to bring it into line with the way modern-day funds operate as well as with offerings of competing jurisdictions. Of equal importance is the implementation of complementary updates to the AIF Rulebook which needs to happen in parallel to enable the structures to work as they should. It is clear Ireland has many strong advantages as a jurisdiction and is often considered and chosen for locating such funds however the planned enhancements will remove a significant headwind to US and UK managers wishing to operate and sell a structure with the look and feel they are most comfortable with.

Central Bank of Ireland’s approach

The Central Bank of Ireland has received some criticism from Irish funds industry leaders for being too slow to move in enhancing Ireland’s regulatory regime, particularly in the area of ETFs – an in which Ireland is the leading European domicile – and appeared unwilling to relax certain requirements because of a preference for international regulatory convergence on the issue. We asked if the Central Bank’s ‘open and transparent’ approach, in contrast to what has been described as a ‘pragmatic’ approach taken by regulators in other jurisdictions, could place the Irish funds industry at a competitive disadvantage in comparison to other EU jurisdictions in attracting funds business.

Tadhg Young, State Street:
Ireland will continue to maintain its competitive advantage over other jurisdictions in servicing ETFs due to the industry’s commitment to the product, the deep pool of knowledge of the ETF market and expertise across all facets of the servicing spectrum for the product. The community of service providers in Ireland including custodians, administrators, legal firms and audit firms across Europe is second to none for ETFs. The CBI has also

A growing demand – ESG

Principal Global Investors is one of the investment companies to have undertaken a significant amount of work over the past several years to incorporate ESG processes into its overall investment process, said Tim Stumpff, chief executive of European operations.

‘We’ve done this in a number of our different boutiques and specialties, perhaps most significantly in the real estate space, where we have some very successful stories in respect to green fund type investing. A number of our other boutiques, on the fixed income and equities side, have done quite a bit of work and incorporated some factors into their day-to-day investment process, too’ he said.

He expects the momentum to increase as responsible investing continues to grow in importance. ‘Across Europe there’s still a pretty wide range of appetite or demand for that type of capability for investing. Certainly in the Nordics its quite a de facto requirement across the board in every situation. It’s almost “table stakes” now in that region. The UK is less so and the US even less so than the UK, but that is evolving. I would expect that across Europe we’ll see a move towards where the Nordics are today in terms of the importance of ESG requirements.’

The EU is looking at setting out a common set of definitional terms. ‘I think conceptually that would be quite helpful for the industry,’ Stumpff said, ‘given that right now an end-user and end-investor can describe different characteristics differently and that can lead to confusion. So providing a standard template of terms could be quite a useful thing for consumers.’
shown significant commitment to the ETF market with the publication of its discussion paper on ETFs in 2017 and the follow up feedback statement in September 2018. The CBI has also amended its existing policy to allow for the existence of listed and unlisted classes in a single product, and also changing the stance on dealing cut offs for hedge share classes. These decisions were made after engagements with the market participants for ETFs, which demonstrates that the CBI is willing to re-calibrate policy once a holistic review of the changes has been completed. Of course, there are certain existing policies that the industry would like to have amended, such as the area of portfolio transparency, but the commitment of the CBI to proactively engage with the ETF market has to be seen as positive.

Ray Kelly, partner, EisnerAmper:

Given the increasing popularity of ETFs as an asset class, it is not surprising that there is an increased regulatory focus on the ETF area and how they work and/or are managed. The Central Bank of Ireland outlined some changes in their feedback statement on this issue in September this year and were keen at that stage to make clear that further dialogue and research is merited in regard to the necessity, extent, and type of potential future changes. In the medium and longer term, this approach may well work out in favour of Ireland’s competitiveness from a jurisdictional reputation perspective.

Rob Rushe, EMEA ETF Executive, BNY Mellon:

While some may consider the Central Bank of Ireland’s approach to regulation is holding back innovation, in particular for managers considering launching active ETFs, the clarity the CBI has brought recently is to be welcomed. Indeed, the announcement in September means that active managers who had been waiting for the regulator’s decision before bringing active ETF funds to the market may decide to do so now they know the rules under which they operate.

Furio Pietribiasi, CEO, Mediolanum Asset Management:

It’s unfair here to blame CBI in this case: the problem leads back to ESMA and the EU in how Supervisory convergence is implemented. The mission of ESMA is to facilitate the completion of a single rulebook for EU financial markets to enhance the EU Single Market by creating a level playing field for investors. The reality is that their directions have a very broad spectrum as to the level of binding and this doesn’t help NCAs when it comes to the level or degree they should be on-boarding these inputs. The less freedom there is, the less interpretation and less potential for regulatory arbitrage. Some regulators are gold-platers and want to be the first; others wait and see because they want to adopt the approach that emerges as most common across Europe; the remainder are laggards. Priority depends on how relatively important the funds business is for a particular country, and for a country like Ireland and Luxembourg it’s important. This is going to get worse once the UK leaves because the UK usually takes the lead on regulatory changes and interpretation and everyone else tends to fall in behind.

Ross McCann, Head of Fund Services Ireland, Alter Domus:

Clearly there is a strong argument for the CBI to maintain a non-commercial outlook however the difficulty is that other regulators in jurisdictions which are Ireland’s competitors do work pro-actively and in tandem with both their industries and politicians to maintain and increase competitiveness. For Ireland to maintain or even grow its ability to compete internationally it needs to be more commercially focused to see and take advantage of new opportunities as well as evolve with changing environments. The pace of change in the ETF area as well as Limited Partnership legislation and AIF Rulebook changes to enhance the Private Equity offering suggest we are not where we need to be. The CBI does not necessarily need a commercial mandate, however a greater allocation of resources to work more closely with industry on these projects would assist in bringing them to fruition faster.

Aoife Quish, Senior Manager, Audit & Assurance, Mazars:

Ireland is competing with other jurisdictions now more than ever in the impending post Brexit environment and consequently we need to continue our efforts to position ourselves as the most attractive place for doing business. It is clear and understandable that the regulators goals are to, increase transparency, ensure liquidity in the market, strengthen investor protection and mitigate counterparty risk however, they need to do so in a more pragmatic manner and work with the key players involved to find a solution. We’ve seen that the regulator is keen to seek the opinions of the industry through discussion papers and their issuance of feedback statements,

ETFs - more to come

‘ETFs are simply a fund vehicle, but it’s interesting that their popularity has taken off,’ says State Street Global Advisors (Ireland) managing director Ann Prendergast. ‘In some ways that’s driven by underlying trends in the market,’ she adds. Those trends include the continued move from active to passive, increasing regulation, the increasing awareness and need for more fee transparency and an increasing focus on fees as well.

ETFs tick a lot of those boxes, she says, and as it is unlikely that any of those factors are going to go away, the trend can be expected to continue. ‘If you take the move from active to passive, it’s still a long way to go,’ she says. ‘It’s certainly a huge industry trend that we’ve seen over the last few years, but it still has quite a distance to go. What people don’t really appreciate is that across the industry active assets constitute between 65 per cent and 75 per cent of global AUM, so there’s quite a bit of movement here.’

‘I think what’s increasingly happening is that investors have become much more discerning about costs, so it’s very much linked to the whole fee discussion. A part of that is because there’s more fee transparency.

‘The other aspect is that we’re in an environment where returns are expected to be lower for longer. In that environment fees become increasingly important. So that is also driving this move from active to passive. Investors are expecting demonstrable value-add if they are being asked to pay a higher margin for a product. Investment managers have to increasingly demonstrate how they are adding value because, through technology, it’s easy to isolate certain factors that might be driving return and to replicate those factors in a systematic way.

‘And the differentiation between what’s indexation and what’s active is decreasing all the time. And as I say, where it is purely passive, or indexed, that will continue to support the growth in the ETFs, and other vehicles that offer indexed solutions as well.’

‘We’re also increasingly seeing it in hedge fund type strategies, if technology is delivering that portfolio return for you, and there’s very little interaction from a Portfolio Manager, then the fees ought to reflect that.’
like the recent one on exchange traded funds (ETFs) demonstrates their willingness to better understand the industries needs for a more reasonable approach to new regulation. Ireland has positioned itself as the European centre of excellence for ETFs and we need to be able to continue to be the domicile of choice for ETF managers whereby they can rely on a clear and practical authorisation process. A domicile whose regulator combines robustness of supervision with timely and pragmatic responses and direction will certainly position itself as the sought-after future domicile of choice. The Central Bank of Ireland needs to be acutely aware of this.

**Investment Limited Partnership**

We asked our panel if the introduction of updated Investment Limited Partnership legislation will greatly enhance Ireland’s attractiveness as a funds domicile? The responses from the panel show that such a move would make Ireland a significantly more useful domicile for private equity and venture capital type business. With the huge growth in private equity business in Europe currently being directed to Luxembourg the introduction of the new regime will put Ireland on a level playing field for private equity business.

**Ross McCann, Head of Fund Services Ireland, Alter Domus:**

This is a crucial piece of the jigsaw in the Private Equity sector’s offering to bring it into line with the way modern day funds operate as well as with offerings of competing jurisdictions. Of equal importance is the implementation of complementary updates to the AIF Rulebook which needs to happen in parallel to enable the structures to work as they should. It is clear Ireland has many strong advantages as a jurisdiction and is often considered and chosen for locating such funds however the planned enhancements will remove a significant headwind to US and UK managers wishing to operate and sell a structure with the look and feel they are used to.

**Conor Durkin, partner, Mason Hayes Curran:**

“The updating of Investment Limited Partnership legislation is crucial to enhancing the Ireland’s attractiveness as a funds domicile. When you consider our capabilities for servicing real asset investments and because we have already the necessary skill set, I think that the reform of partnership legislation will go a long way to ensuring Ireland has a compelling product for the private equity industry”

“Until such time as Ireland has a fit-for-purpose LP structure, PE managers will continue to use Luxembourg as the PE domicile of choice in Europe.”

**Furio Pietribiasi, CEO, Mediolanum Asset Management:**

This is not just a priority for Ireland in terms of reinforcing the location as an international funds centre. We are probably coming to the end of an unprecedented positive global economic cycle pushing FDIs and now to support the local economy we face the need for alternatives to access capital such as venture capital, private equity and private debt. That goes for all of Europe but for Ireland in particular: we have relied disproportionately on FDIs and we will certainly see a slowdown as the MNCs focus on efficiencies. European capital markets reform would have been the answer but it’s clear since Brexit and Jonathan Hill’s leadership on these issues that CMU is not progressing. The banks will not be able to fill the void because of the cost of capital and the related risk.

**Conor MacGuinness, Managing Director, DMS Investment Management Services (Europe):**

It would have increased competitiveness years ago but it’s lack of implementation is a fiasco for the industry and makes a mockery of government strategy like IFS2020. Huge volumes of business, jobs and tax revenue has been lost to other fund domiciles and partners structure for private markets funds structures is a gaping hole in the Irish funds offering.

**Rob Childs, Head of International, Prescient Fund Services:**

Returns generated by long-term/illiquid investment strategies including private equity, private debt, venture capital, real estate and infrastructure are creating new opportunities for fund domiciles that have the structures and capabilities to deliver robust solutions to investment managers and their investors. To date, for those that want the higher degree of transparency and investor protection offered by EU regulation in a closed-ended fund structure, the domicile of choice has been Luxembourg. The ILP should enable Ireland to compete on a more level playing field.

**Cormac Kelleher, International Tax Partner, Mazars:**

The limited partnership legislation is welcomed as it will modernise and further enhance Ireland’s legal structure offering. It will improve Ireland’s offering in the venture capital, private equity and other asset focused space. This change is just the latest step in a series of establishing Ireland as an international fund location. Investment limited partnerships are not subject to legal risk spreading obligations. Consequently, this makes them particularly attractive for single asset funds or funds with high asset concentration.

The enhancement to the investment limited partnership regime needs to be considered in conjunction with the ICAV provisions. The Minister for Finance and public Expenditure and Reform, Paschal Donohoe indicated that this change will act “as a symbol of Ireland’s commitment to grow the funds sector while retaining a sound regulatory environment.”

**Ray Kelly, partner, EisnerAmper:**

With the growth of the PE sector expected to continue, it is imperative that Ireland has a fit-for-purpose LP structure to allow us to compete on an even footing with other European jurisdictions.

We continue to hear from our EisnerAmper Global colleagues in the US, the UK, Cayman and Singapore that they are seeing significant growth in the Private Equity sector. Unfortunately, when their clients want to access European capital it is invariably via a Luxembourg domiciled structure. These clients include those managers who may already have hedge funds domiciled in Ireland and anecdotally we hear that they would prefer to use Ireland given their existing working relationships. However, until such time as Ireland has a fit-for-purpose LP structure, PE managers will continue to use Luxembourg as the PE domicile of choice in Europe.