Brexit solidifies Ireland's position

■ Fresh perspective: part of the Brexit challenge facing the Irish funds industry was the fact that the UK was such a major client of the jurisdiction. But that is also the opportunity. PHOTOGRAPH: ISTOCK

Sandra O'Connell

UK companies have hurried to establish offices here to avoid risk of exclusion from the EU market

For Ireland's funds industry, the UK's decision to leave the EU has helped accelerate a move up the value chain that was already well under way.

For the past 30 years the UK has focused on front-office activities such as fund management, and less on back-office administration, much of which it outsourced here. But over time Ireland became a much more sophisticated player in the funds industry, both from a tax and a products perspective.

"We gradually moved up the food chain, to become a domicile of choice. Ireland and Luxembourg are now the two main domiciles in the EU," says Kevin Murphy, co-head of Arthur Cox's Asset Management and Investment Funds Group.

"UK mangers were not willing to take the risk of being excluded from the EU market post-Brexit, and so Ireland has seen a proliferation of new management companies setting up here, with staff on the ground. That has moved us further along the value chain, from back office to mid- and front-office activities. One of the outcomes of Brexit therefore has been the evolution of the Irish financial services sector," he adds.

"There is now a greater dependency on Ireland by managers looking to distribute their funds across the EU, and that has been a positive."

The UK is a significant market for the sale of Irish funds, too. The agreement of a Temporary Permissions Regime allowed existing Irish funds to continue to be sold there, post-Brexit, while a new registration scheme was announced for new funds.

Those negotiations are still ongoing. Despite the importance of London as a centre for international financial services, the UK didn't prioritise the sector during Brexit negotiations, focusing instead on sovereignty issues such as fishing rights.

"We still have to finalise what the financial services regime is," says Murphy. "We need to preserve the current status quo and ensure that Irish funds can continue to be sold in the UK on a competitive basis."

Centre of excellence

The industry here already looks well positioned for the future on one front. "As the EU is taking the lead globally on ESG (environmental, social and governance) fund regulation, Ireland can be a centre of excellence and influence for ESG funds not just in the EU but globally, as the large number of US managers who operate here navigate those new ESG rules for their EU funds, which in turn is likely to influence how they manage ESG funds in the US," says Murphy.

Part of the Brexit challenge facing the Irish funds industry was the fact that the UK was such a major client of the jurisdiction. But that is also the opportunity.

"The UK is the world's second-biggest investment centre globally. That represents a huge opportunity for future growth," says Donnacha O'Connor, managing partner and head of the asset management and investment funds at Dillon Eustace.

Legislative steps

The legislative steps taken here to allow UK firms to continue to set up and manage their business in Ireland have helped. "The worry is that the UK, now that it is not part of the EU and can look after its own clients, could make domiciling in the UK more attractive," he says.

A very real opportunity exists for Ireland

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to establish itself as a fund management jurisdiction and to encourage UK firms to set up an EU hub here.

"Ireland has already grasped this. The number of fund management businesses has really accelerated since Brexit," says O'Connor. "We don't have all the building blocks required, and places such as Paris, Frankfurt and Amsterdam will be competing against us so we're not going to win all of this business, but we have already to some extent benefited from the fact that we are so close to the UK."

Ireland's reputation in the funds industry helps. "As well as being well-established as a domicile from which funds can be sold to investors internationally, our asset management industry is seen as welcoming and we are seen as sophisticated from a regulatory and a talent perspective," says Fionán Breathnach, who leads the Irish office of law firm Simmons and Simmons.

The result has been a combination of both new entrants establishing operations here, and financial institutions that already had a presence here expanding.

"The Central Bank came out early in relation to Brexit to publicly state that asset managers looking to establish a European hub in Ireland, whose previous centre of gravity was in London, could not set up here with a very light degree of substance. They needed a substantive operation in Ireland," says Breathnach.

"That leads to challenges in terms of the investments that international asset managers need to make in Ireland that they wouldn't have foreseen, prior to Brexit. That is on top of having high-value level of functions and roles carried out in Ireland by appropriately qualified personnel, so there is a skills challenge too."

In many cases personnel have relocated from the UK to Ireland. "So we need to ensure there is an adequate supply of schools, including international schools, and appropriate housing," he points out.

"These types of successes inevitably bring these types of challenges. I don't think it has been a significant deterrent for people so far but is something we need to continue to invest in."

'A lot of shapes and sizes': Getting to grips with array of investment vehicles

Edel Corrigan

From a regulatory perspective, there are essentially two main types of funds

■ Central Bank of Ireland: the two main designations of investment funds are Undertakings for the Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs). PHOTOGRAPH: NICK BRADSHAW

Since the establishment of the IFSC in Dublin in 1987, Ireland has grown into a globally-renowned funds centre, says Sonia Howard, tax director, BDO. The Central Bank of Ireland (CBI) is the regulatory authority responsible for the authorisation and supervision of Irish fund vehicles, she says, and it has worked closely with the Irish funds industry to accommodate a range of tax-exempt investment products using a variety of structures.

Ireland has total assets under administration of about €4 trillion, with Irish-domiciled funds amounting to more than €2.2 trillion with over eight thousand funds, says Howard. Ireland is the domicile for 5.9 per cent of worldwide investment funds assets, making it the third largest global centre and the second largest in Europe.

"Funds, though they come in a lot of shapes and sizes, are generally speaking an investment vehicle for a large number of investors to pool together their investments and invest those on a collective basis," says James McKnight, partner, Simmons & Simmons.

"The benefit of doing so is to spread the fixed costs associated with investing across a larger number of investors. If you were to make these investments by yourself it would be more expensive to do so. The idea with a collective investment scheme like a fund is that it benefits the economies of scale that comes with a large number of investors clubbing together to make investments."

Designations

Within that, from a regulatory perspective, there are essentially two main designations: Undertakings for the Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs). UCITS are primarily for non-professional or "retail" investors and AIFs are any fund other than a UCIT. "Usually AIFs are limited to what we call professional investors," says McKnight.

Conor MacGuinness, global head of onboarding and relationship management at Waystone, explains that UCITS are tightly regulated investment funds that can be marketed to all investor types, both retail and institutional in Ireland, across the EU and globally. "They have strict rules and a high level of investor protection in terms of what asset types can be included and on portfolio composition and diversification. They typically allow investors to buy and sell on a daily basis and hold liquid assets such as equities, money market instruments or fixed income."

€4tn

Value of assets under administration in Ireland; more than €2.2 trillion is domiciled here

"Because UCITS allow retail investors – people who either don't have the experience or the time to learn about investments and what they need to do make active decisions about the type of investments they want to invest into – there are strict rules around risk spreading, the type of investments that UCITS can invest into, and liquidity," says McKnight.

"In order to be authorised as a UCITS you need to offer the opportunity to investors to get all of their money back twice per month." As a result, UCITS can only invest in very liquid instruments such as listed shares, stocks and bonds.

Hedge funds

AIFs refer to all investment funds that are not covered by the EU Directive on UCITS and instead fall under the Alternative Investment Fund Manager Directive (AIFMD), says Howard. "This includes hedge funds, funds of hedge funds, venture capital, private equity funds and real estate funds."

The main category for AIFs in Ireland under the Central Bank of Ireland rules are Qualifying AIFs (QIAIFs)," says MacGuinness. "They are for qualifying investors such as institutional investors. Retail Investor AIFs (RIAIFs) are a hybrid between QIAIFs and UCITS. There are relatively few in the market."

QIAIFs offer the broadest flexibility in terms of liquidity options as they may be structured as open-ended, open-ended with limited liquidity, or closed-ended, says Howard. "The RIAIF is a retail fund product with no minimum investment requirement. A RIAIF cannot avail of the automatic right to market across Europe under the AIFMD marketing passport but access to individual markets may, however, be granted on a case-by-case basis."