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Ireland defends its asset management and fund servicing industry

Ireland's banking system and its wider economy has attracted a lot of bad press, raising questions about how its recently thriving asset management and fund servicing industry will be affected.

In the space of 72 hours on 18, 19 and 20 April, Ireland suffered three body blows to the reputation of its banking industry. The country's five major banks were downgraded to junk status, Moody's dropped its sovereign bond rating one notch, and Finnish banking expert Peter Nyberg issued a damning report on the banking sector in Ireland.

The report collectively blamed Ireland's regulators and politicians, as well as domestic and - overseas investors, the public and the media for the speculative hype that ultimately brought the country's banking system to its knees.

The report said it was "almost unbelievable that intelligent professionals in the banking sector appear not to have been aware of the size of the risks they were taking".

And those moves were only a fragment of the negative press the country's financial services industry has had to endure since December 2010.

But its asset management and fund servicing industry can emerge unscathed, argue representatives from both the Irish Funds Industry Association (IFIA) and Dillon Eustace, the country's number one funds law firm. They say these sectors are even in a position to capitalise on the deleveraging of assets and reallocation of resources now needed by its banking sector.

"Notwithstanding what's going, the asset management industry is significantly separate and discrete from other business and activity economic considerations in Ireland," says IFIA chief executive Gary Palmer. "There is neither a correlation nor any touchpoints between that industry and the wider economy."

Irish funds are promoted and managed by international managers, while the assets themselves are non-Irish and they are held by international custodians, he says.

"Their life cycle in Ireland is as a legal entity, and for the servicing of the investment fund."

Selling points

In the past, tax efficiency for that structuring has been Ireland's selling point, drawing the investment industry to use the jurisdiction to service its funds. But Ireland's favourable 12.5% corporate tax regime is one of the biggest criticisms being made about the jurisdiction, especially in the context of its ailing economic fortunes and its bailout by the European Central Bank (ECB).

Of all member states in the EU, Ireland holds the largest share of ECB funding. According to statistics issued by the ECB in February 2011, Ireland needed €116.9bn, or a quarter of all the funding it supplies, higher even than Greece.



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Worse still, Ireland has admitted it needs more funding. On 31 March, it emerged Ireland's five main banks – AIB, Bank of Ireland, EBS, Anglo Irish and Irish Nationwide Building Society – collectively needed an additional €24bn. A presentation given by representatives from Ireland's financial services industry on 15 April revealed how much more dire the situation has become.

Once emergency liquidity assistance to the tune of €70bn is factored in, and an additional €40bn for non-Irish banks in Ireland, the overall figure it requires from the ECB is €140bn, rather than €116.9bn.

Within that context, it has become harder for the country to justify its corporation tax. But, says Palmer: "There is no sense of it changing it all. The industry and the government are aware of the significant importance of having an appropriate tax framework."

Andrew Bates, a partner and head of financial services at Dillon Eustace, specialises in asset management, investment funds and insurance. He argues that the country's corporate tax rate is sustainable.

"It is the cornerstone," he says, claiming Ireland's economic future lies in export-led growth and its tax rate is a driver of that attractiveness.

Palmer agrees, saying: "Export-led services growth provides the economic planks on which the whole economy in Ireland will grow."

Bates also thinks it is important to show "consistency of message" on the corporate tax rate. He says that the average European corporation tax is actually lower than advertised, and that a number of member states have ways of reducing their corporate tax rate to the point that is just as competitive, if not more.

The Irish Times recently highlighted France's effective corporate tax rate, which was put at 8.2% in a recent study by the World Bank and PwC, despite its nominal corporate tax rate being 33.3% – higher than the European average. Criticism of Ireland's regime is just for political sound bites, Bates says.

Palmer argues that Ireland's regulatory system is highly regarded by the international community, while its new government will ensure that regulation is enhanced.

On 6 March, a coalition agreement was finally reached between Fine Gael and Labour, bringing to an end Fianna Fáil's rule and perceived economic incompetence. Palmer believes that Ireland's new administration, in spite of being new, has so far shown signs it will do and maintain what is needed.

"Everything the new government has done and said since it came in has been significantly positive," he says.

But while a change of government could potentially herald a new era for Ireland, and a willingness on the part of the international community to give it a second chance, it has a lot to overcome.

Deleveraging

With its state aid-supported main banks needing to deleverage some 30% of their assets, Ireland's domestic asset management industry is set to shrink. That process has already begun. On 24 February, the Bank of Ireland sold off its asset management arm, Bank of Ireland Securities - Services (BoISS) to Northern Rock.

A day after it emerged that Ireland's five main banks needed additional funding, Allied Irish Banks hived off its 70.36% stake in Polish Bank Zachodni WBK S.A and its 50% stake in BZ WBK AIB Asset Management S.A., although that was an international interest, not a domestic one.



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Irish Life is now looking to sell its asset management arm, says Bates. Others will no doubt follow. Both Bates and Palmer think that international companies looking to extend their footprint will find those businesses attractive, and in that sense Ireland can preserve an industry.

As a result, Palmer thinks Ireland will not necessarily lose the pool of skilled staff it has so proudly built up.

“Resources will become more readily available,” he says. “The contraction in the domestic financial services industry will be to the benefit of a growing international financial services industry. It’s an opportunity to use that resource.”

Ireland’s fund administration industry, meanwhile, is not under threat, says Bates. He says there has been a good flow of human capital into fund administration, custody and legal services. On 20 April, global fund services provider APEX announced the opening of a new Dublin office that will create 50 jobs.

The distinction between Ireland’s fund servicing business and its wider economic problems may be appreciated by those in financial services, but it still has its European rival Luxembourg to compete with.

Traditionally, Ireland has tended to cater to the Anglo-American community and Luxembourg to continental Europe. Ireland has also developed a specialism in servicing the hedge funds industry that Luxembourg cannot match.

However, the Grand Duchy does not face the negative perceptions about its overall economic - stability that Ireland does. With the country fast reaching a 100% public debt-to-GDP ratio, it remains to be seen how this debt will affect Ireland’s financial services industry and how long it will take for its reputation to recover.

Link: <http://www.investmenteurope.net/investment-europe/feature/2069884/ireland-defends-asset-management-fund-servicing-industry/page/2>