

# Listed and non-listed funds under same umbrella will boost Irish ETF industry

By Beverly Chandler

*Brexit and its many possible forms holds few fears in relation to structuring ETFs for Brian Higgins, partner, Asset Management and Investment Funds at Dillon Eustace in Dublin.*

Higgins says: "In terms of ETF structuring and markets we are quite confident about it as the UK has confirmed that not only will its Temporary Permission Regime apply to existing UCITS, but also to new sub-funds established post-Brexit within such existing funds. In addition, the UK has also indicated that it intends to refine its general registration process for foreign funds post-Brexit" he says.

"But there will be timing implications for new funds post Brexit. People will have to give themselves more time if they want to sell new UCITS into the UK post Brexit, but we are fortunate as an industry that as firms, industry bodies and regulators we have good relationships with our UK peers. This has helped to minimise the impact of Brexit on ETF structures."

Dillon Eustace is the largest fund practice in Ireland, with approximately 21 per cent of the funds business in the market as measured by the number of fund clients (as confirmed by Monterey). The firm also established the first active ETF in Ireland.

In terms of ETFs, Ireland dominates as a domicile in Europe with approximately 54 per cent of European ETF assets domiciled in Ireland, ahead of other European jurisdictions.

One of the reasons for Ireland's dominance, Higgins says, is that many of the initial promoters of European ETFs were US-based managers to whom the double taxation treaty between the US and Ireland (which reduces dividend withholding tax from 30 to 15 per cent on US investments) would have been very appealing.



**Brian Higgins, partner, Asset Management and Investment Funds at Dillon Eustace**

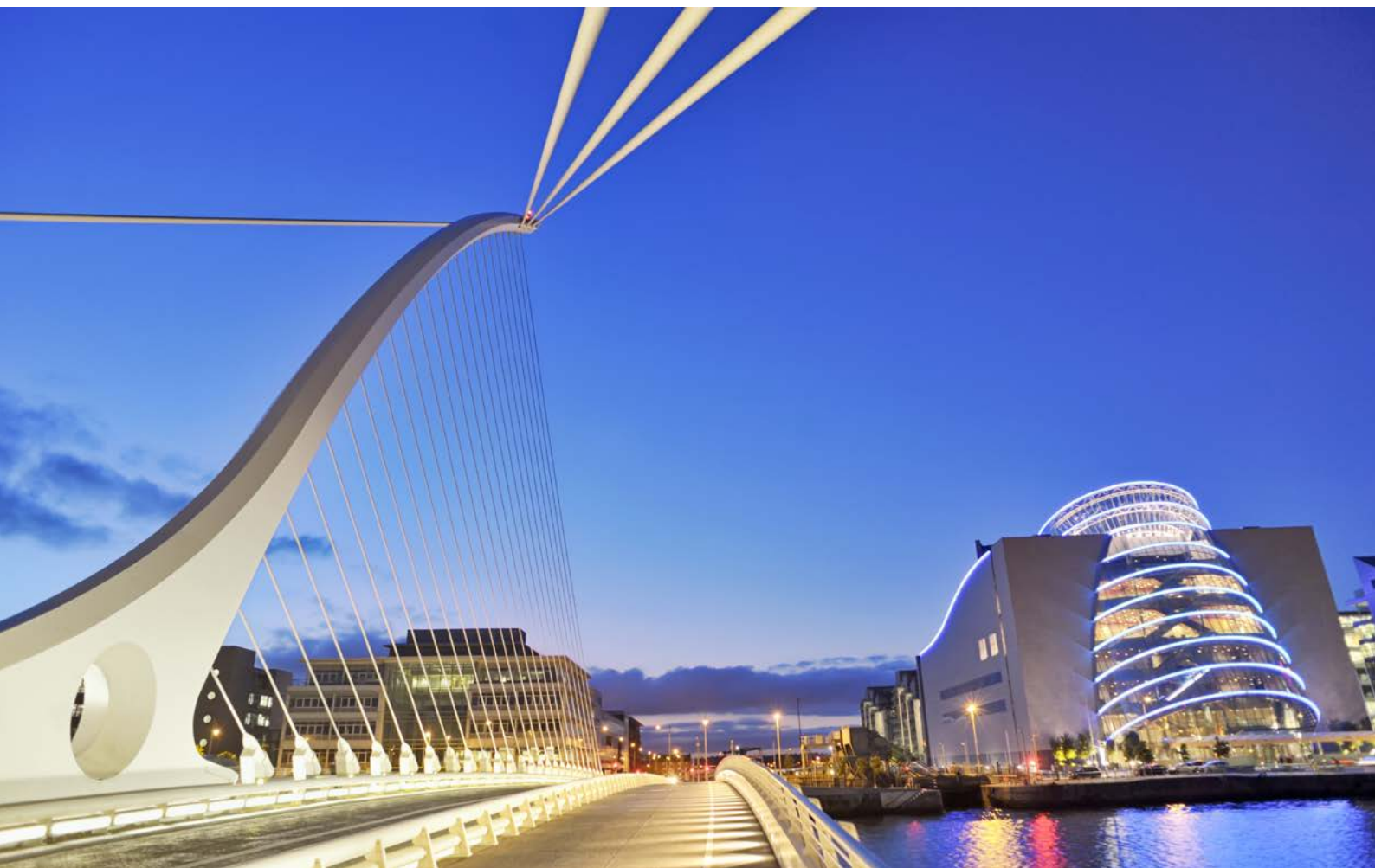
"The ETF industry in Ireland has built up as a centre of excellence with a regulator who has displayed thought leadership with its discussion papers and is playing a leading role (alongside the SEC) in IOSCO's review of ETFs," Higgins says. "It is clearly a leading centre in terms of location for ETFs but also for service providers and a regulator who knows the industry very well."

Higgins reports plenty of new business coming through the door but largely from firms who already have ETFs.

"We anticipate that new growth in Ireland will come from the Central Bank allowing listed and non-listed funds within the same fund. This means you can set up a fund with an ETF share class with resulting cost savings and allow new players into this space".

The development means that promoters won't necessarily have to set-up mirror funds in order to enter the ETF market.

"It's not a panacea and not everyone will do it," he says. "It will work for some and not for everybody but the advantage is the



economies of scale and you can maintain the fund's track record which may be of assistance to active funds in particular."

MiFID II's effects on the ETF industry are slowly helping, Higgins believes. Perhaps not so much with the fragmentation of the European market but with the greater transparency it calls for, which gives greater confidence in the depth of the European market.

"The new trade reporting requirements which apply to ETFs under MiFID II have brought greater transparency and consequently more confidence in the depth and liquidity of the European ETF market" he says.

He also observes that MiFID II rules in relation to inducements, coupled with the pressure, commercial and regulatory, on fees is encouraging IFAs to give more consideration to ETFs as an appropriate product to recommend to their clients.

In addition to Euronext Dublin's passport to the London Stock Exchange, Higgins

also mentions that there are a number of developments which are or will help to alleviate the fragmented nature of the European ETF market.

These include, the increased use of the International Central Securities Depository model of settlement, the anticipated arrival of Consolidated Tape, as well as Euronext's Access ETF. "None of these are silver bullets but it's all helping," Higgins says.

He is also hopeful that, IOSCO may agree to some level of proportionality in respect of portfolio transparency for active ETFs (such as use of a proxy portfolio or delayed issue) which would allow a greater number of active managers into the ETF market without fear of revealing their current portfolios.

"We would still be hopeful that there will be some sort of practical solution," he says. "If that does occur, it will probably be the biggest boost for the market and you will see active managers move into the space without fear of front running." ■