

Chairman, members of the committee, thank you for the invitation to participate in today's meeting. The European Commission Green Paper – "Building a Capital Markets Union", published just under six weeks ago is the first step in a significant multi-year project which will likely have a significant impact on the Irish investment funds industry. Throughout our discussion I will refer to Capital Markets Union as "CMU".

### **IFIA – an introduction**

By way of introduction the Irish Funds Industry Association, the IFIA, is the representative member<sup>1</sup> organisation for those companies involved in the international investment funds industry in Ireland. The investment funds our members provide services to are widely held, predominantly by institutional and retail investors outside of Ireland. They invest in global assets and securities and reflect a wide range of investment strategies.

The business of internationally distributed investment funds is highly regulated and Ireland has developed into a significant domicile and administration centre for such fund products within a legal and regulatory environment supervised locally and anchored in a number of European Directives. The UCITS<sup>2</sup> Directive, transposed into Irish legislation in 1989 provided a key opportunity for the development of the industry here in Ireland. By developing and continually enhancing the environment in Ireland with the support of an industry that demonstrates excellence and expertise, Ireland enjoys a strong reputation as an investment fund jurisdiction and is now an acknowledged leading international domicile and administration centre for investment funds.

The Irish funds industry employs 13,000 professionals working throughout 10 counties in Ireland, making it the single largest employment sub-sector within internationally traded financial services.

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<sup>1</sup> IFIA's members include investment fund managers, fund administrators, custodians, professional advisors and other specialist firms.

<sup>2</sup> UCITS stands for Undertakings in Collective Investments in Transferable Securities. The objective of the Original UCITS Directive 85/611/EEC, adopted in 1985, was to allow for open-ended funds investing in transferable securities to be subject to the same regulation in every Member State. It was hoped that once such legislative uniformity was established throughout Europe, funds authorised in one Member State could be sold to the public in each Member State without further authorisation, thereby furthering the EU's goal of a single market for financial services in Europe.

## **Check vs Delivery**

### **Opening statement for Oireachtas Joint Committee on Finance, Public Expenditure and Reform**

**Topic: EU Commission's Capital Markets Union Green Paper, March 31<sup>st</sup> 2015**

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Ireland is the second largest European centre for the administration and servicing of investment funds. In excess of €3.4 trillion of assets in over 13,000 Collective Investment Schemes (“CIS”) are administered<sup>3</sup> in Ireland. As such all significant developments in the European investment arena are of particular interest and relevance to the Irish industry. In recent years we have also seen an increasing number of jurisdictions seek to position themselves as domicile and servicing centres for investment funds so this business is increasingly competitive.

IFIA is also an active participant in the industry at European and international level, being a member of both the European Fund and Asset Management Association (“EFAMA”) and the International Investment Funds Association (“IIFA”).

Earlier this month the Irish government launched a strategy for Ireland’s international financial services sector for the next five years – IFS2020. The strategy acknowledges the spectacular growth in international financial services over the past 25 years, in which the funds industry has played a leading role. The strategy also recognises the need to respond to competitive challenges and opportunities, to innovate and develop new expertise in order to maintain and grow employment in the sector and continue to attract new foreign direct investment.

As the respective timeframes of the IFS2020 Strategy and the CMU Project are largely contemporaneous the potential to ensure Ireland is responsive in identifying opportunities exists. We look forward to working with the government, its departments and agencies on the roll-out and implementation of IFS2020 and the potential for new product offerings and services under CMU which will encourage further industry growth and associated employment.

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<sup>3</sup> These assets are comprised of €1.7 trillion in 5,833 Irish domiciled CIS (including sub-funds). Additionally, the industry services €1.7 trillion in non-Irish CIS administered in Ireland.

### **Capital Markets Union**

Our discussion this afternoon occurs roughly half way through the initial consultation on CMU therefore IFIA, like many other organisations and stakeholders, are in the process of forming and testing views on the specific matters/questions contained therein. Any views expressed today should therefore be understood to be initial thoughts which are subject to change.

We welcome the CMU initiative on a number of levels. Firstly, the political recognition that capital market based funding of economies is essential but less pervasive than it should be to encourage growth and jobs is significant. The free flow of capital within the single market is one of the fundamental principles on which the EU was built and the CMU project should act as an enabler and facilitator. Multiple sources of financing for economies makes sense and the role of capital markets (or market based financing) should, as witnessed elsewhere, be stronger.

Secondly, from the Green Paper and public comments by Commissioner Hill there is a clear understanding of the importance of investors (asset owners) and finding mechanisms that meet their needs “to identify and remove the barriers which stand between investors' money and investment opportunities”. An approach based on pragmatism and recognising that a capital market, like any other market, must offer utility to buyers (investors) as well as sellers (issuers) is the only way to proceed.

Finally, a specific initiative on CMU will draw out further the distinctions between bank and market based financing and the appropriate structures to support each.

The Green Paper sets out the areas that the Commission believes should be included under the broad CMU initiative – rather than reiterate all the points contained in the Green Paper and accompanying working document we would highlight the following as being relevant for further examination through the consultation process.

- Effective (i.e. liquid) secondary markets are an essential for primary markets to be seen as credible.
- Investment funds are both an effective aggregator of investor capital and provide a mechanism to allow the unique risks of a specific investment (because of underlying risk, liquidity or other factors) to be absorbed via diversification in a manner that is less likely to compromise the achievement of an investor's overall objectives.

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- National economies (and the capital markets that currently serve them) are far from homogenous so the measures implemented en route to CMU will need to be flexible enough to reflect these differences.
- A common understanding of what a SME is (from a size and capital appetite perspective) across markets is very important to identify in assessing actual vs. perceived benefits.
- “Passporting” has proven very effective in the investment funds world and additional usage of this mechanism may prove beneficial in developing a CMU which encourages capital, assets, securities and investors to move freely.
- An effective CMU should aid the efficient usage and deployment of bank lending capacity.
- Private markets (whether in equity or debt) require specific focus and are further down the development curve.

While an EU initiative, no capital market operates in isolation and the extent to which the measures delivered under CMU make European investment opportunities attractive and accessible to non-Europeans will have a significant bearing on the success of the project. Investment funds will be crucial to this. This project is also occurring at the same time the Chinese authorities are internationalising their currency and developing their own capital markets. If Ireland can act as an effective bridge between Asia and the EU it will increase its relevance and attractiveness as a location for internationally traded financial services.

Stimulating greater capital markets breadth, depth and utilisation should benefit Ireland and the Irish funds industry as this is likely to bring about increased activity and demand for services supporting the capital markets. Achieving the goals identified in IFS2020 will, in part, be linked to how Ireland responds to the opportunities and challenges encountered along the road to CMU.

Thank you.