WHY IRELAND FOR ETFs

A Guide to Issuing ETFs (Exchange Traded Funds) in Ireland

irishfunds.ie
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Why Ireland for ETFs?

Since the launch of the first European ETF (Exchange Traded Fund) in 2000, Ireland has been the number one European domicile for ETF issuers. Today Ireland is home to almost 50% of all European ETF assets, significantly more than its nearest rival domicile at 18%.

What has been the key to Ireland’s success and why are most new issuers choosing Ireland as their base to launch European ETF products?

Fifteen years of innovative practices and initiatives and the local availability of highly educated professionals are just some of the elements that have contributed to Ireland’s success story. When it comes to ETFs, the most exciting and fastest growing sector of the funds industry, Ireland is always looking ahead.

ETF Assets by Domicile

Unrivalled ETF Experience and Expertise

The maturity of the Irish service model ensures that ETF issuers have access to service providers with highly automated and scalable global models.

Ireland’s professional services infrastructure is well developed, with specialist legal, tax and accounting skills and expertise. This infrastructure, coupled with the in-depth knowledge and experience of service providers in Ireland ensures that ETF issuers benefit from an exceptional support framework from which to launch and grow their product range in line with the evolving market, regulatory and distribution landscape.

Fund promoters can work within a clear and practical regulatory process which provides certainty in relation to approval timeframes.

Irish service providers have experience of all investment strategies from physical to synthetic, active to passive and standard equity to commodity structures. By choosing to domicile in Ireland, new entrants to the ETF market can tap into this pool of knowledge and have comfort that they are partnering with people who understand what the issuer wants to achieve and will provide the required support and expertise to ensure the issuer achieve their goals.

THE IRISH FUNDS INDUSTRY HAS DEVELOPED AS A CENTRE OF EXCELLENCE IN TERMS OF SUPPORTING THE BROAD AND UNIQUE ETF OPERATING MODEL AND WIDER ADMINISTRATION. A LARGE POOL OF EXPERTISE AND EXPERIENCE IS AVAILABLE WHICH SPANS A WIDE RANGE OF SERVICES FROM FUND ADMINISTRATION, LEGAL, TAX, ACCOUNTING, AUDIT AND CUSTODY AND THERE IS ALSO THE BENEFIT OF A GOOD COMMUNITY OF EXPERIENCED DIRECTORS.

KAREN PROOTH, CHIEF OPERATING OFFICER (COO) FOR ISHARES EMEA, BLACKROCK
WHY IRELAND FOR ETFs

Innovation
Ireland has played a significant part in the evolution of the European ETF market over the past fifteen years. As home to six of the top ten ETF issuers in Europe, it has been at the forefront of product, operational and infrastructure development. One recent innovation is the development of an International Central Securities Depository (ICSD) model to centralise the settlement of all ETF shares, regardless of listing location. This has been recognised as a significant step in the development of the ETF industry and addresses a number of fundamental issues within the European ETF market today. The result should bring further liquidity, better spreads for investors and has the potential to kick start the lending of shares in ETFs, which has been very difficult to achieve in what has been a fragmented market.

International Distribution
Reach and Recognition
Ireland is a major hub for cross-border fund distribution and Irish funds are sold in 70 countries across Europe, the Americas, Asia and the Pacific, the Middle East and Africa. A total of 455 fund promoters from over 55 countries have chosen Ireland as a domicile for their investment funds. When including non-Irish domiciled funds administered in Ireland there are over 836 fund promoters who have chosen Ireland to domicile and/or service their funds. Ireland is one of the main domiciles for UCITS funds. As all Irish ETFs and most European ETFs are structured as UCITS vehicles, this makes Ireland an ideal domicile.

Ireland is an internationally recognised jurisdiction with membership of the EU, Eurozone, OECD, FATF and IOSCO. Ireland does not operate a banking secrecy regime and with openness, transparency and regulation as the pillars of the industry, Ireland leads the global industry in compliance with internationally agreed tax standards, further evidenced by volunteering for a peer review by the G20 and OECD countries. Ireland cooperates with all EU states on the basis of the European directives and has signed Memoranda of Understanding with numerous countries including China, Dubai, Hong Kong, the Isle of Man, Jersey, South Africa, Switzerland, Taiwan and the USA.

With a continuously expanding tax treaty network, including over 70 countries, Ireland has one of the most developed and favourable tax treaty networks in the world.

Almost all of the world’s major fund service providers have a presence in Ireland, combining local excellence with global reach.

IRELAND IS A MODERN, INTERNATIONAL, OPEN ECONOMY WHERE BUSINESS IS CONDUCTED WITH ASIA IN THE MORNING, THE AMERICAS IN THE AFTERNOON AND EUROPE THROUGHOUT THE DAY.
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Passporting your ETF
The Irish Stock Exchange (ISE) offers a fast and cost efficient primary listing which allows ETF issuers access the London Stock Exchange’s (LSE) main market. This is possible via an alternative admission route. The advisory costs for an ISE listing are significantly lower than those incurred for the equivalent UKLA (UK Listing Authority) approval.

The listing regime is a straightforward process as it recognises existing regulation applicable to the ETF issuer. It is a well-established process used by many large ETF providers. 124 ETFs currently have their primary listing on the ISE. (Source: Irish Stock Exchange February 2015)

Regulation and Structuring
The UCITS regulatory regime covers open ended retail investment vehicles investing in liquid, transferable securities and other assets. The advantage of establishing an ETF as a UCITS is that it benefits from a brand that is recognised and understood throughout the world. It can generally be sold without any material restriction to any category or number of investors in any EU Member State and in many other countries globally. There are restrictions on the investment and borrowing policies of UCITS and on the use by UCITS of leverage and financial derivative instruments which are designed to protect investors and prevent excessive risk taking. However, the UCITS framework is flexible enough to enable promoters to structure a very wide variety of index-tracking and actively managed ETFs. Irish ETFs can benefit from a well-established and flexible Central Bank index review and approval process, which enables promoters to bring innovative and complex index-tracking products to market quickly.

UCITS ETFs may be structured as corporate or trust vehicles (including the recently launched ICAV vehicle) and as stand-alone or umbrella funds, with multiple sub-funds. In addition, the Irish regulatory framework permits active and passive ETFs, synthetically and physically replicating ETFs and non-exchanged traded funds within the same umbrella. It is also possible to create individual exchange traded share classes within an otherwise non-exchange traded fund.

For an ETF provider deciding on domicile, it is imperative to have confidence in the country’s regulatory framework and the infrastructure supporting the operations. Ireland ticks all the boxes for us. This is particularly important when launching new and sometimes quite complex products – a proven level of expertise is vital not only for us but also for investors.

Gary Buxton, Chief Operating Officer, Source
WHY IRELAND FOR ETFs

**Taxation**

ETFs established in Ireland benefit from a national tax regime that is clear, certain, transparent and fully compliant with OECD guidelines and EU law. In addition, ETFs benefit from a neutral tax regime that applies to all funds regulated in Ireland including:

- Income and gains derived from investments are exempt from Irish tax,
- No Irish taxes on the net asset value,
- No transfer taxes or capital duties on the issuance, redemption of units in ETFs, and
- No withholding taxes applied on payments made to non-Irish resident investors or on units held in recognised clearing systems.

In addition, Ireland has a broad double tax treaty network spanning over 70 countries across the EU, Middle East, Asia and Americas. The availability of treaty benefits in a particular case will ultimately depend on the relevant tax treaty and the approach of the tax authorities in the treaty country. For example, treaty relief under the Ireland/US tax treaty may be available to a ETF depending on the facts and circumstances resulting in a net withholding tax rate of 15% on US dividend income.

**ETFs of the future**

Looking ahead, passive index-tracking ETFs will continue to be an attractive option to investors. This will undoubtedly be supported by regulatory developments in Europe, such as the RDR in the UK and other local regulatory changes, as well as pan-European changes proposed under MiFID II, which have the effect of banning commission payments for those selling funds to end investors. This will remove the incentive to sell more expensive products with higher commissions and will encourage a greater selection of ETFs in the range of products distributed in this way.

However, we are also starting to see changes in the type of products offered in the form of ETFs. Alongside the more traditional indexing methodologies, non-traditional indexing strategies, often referred to as Smart Beta, are becoming more common. These strategies follow a passive model, as with the more traditional forms of indexing but weight the index components based on factors other than market capitalisation.

A step further than Smart Beta is the introduction of Active ETFs. A number of ETF providers in the US have recently made submissions to the SEC outlining their proposals for non-transparent active ETFs, whereby they would not be required to disclose holdings on a daily basis. Europe has also seen this area gain some traction and UCITS rules do not generally require the disclosure of holdings. The Irish Stock Exchange announced in December 2014 that it would no longer require daily portfolio disclosure by Active ETFs listed on that exchange. Non-transparent Active ETFs are viewed as an opportunity for growth in the ETF market, both in the US and in Europe and developments in this space will be watched closely by active managers who up to now may not have contemplated an ETF strategy.
Irish Funds
10th Floor, One George’s Quay Plaza,
George’s Quay, Dublin 2, Ireland.
t: +353 (0) 1 675 3200
e: info@irishfunds.ie
w: irishfunds.ie

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