Opening Statement: Oireachtas Joint Committee on Finance, Public Expenditure & Reform and Taoiseach

Brexit: Matters relating to Financial Services ***30 May 2017***

Mr. Chairman, Deputies and Senators - thank you for the invitation to participate in today's meeting.

Irish Funds – an introduction

The Irish Funds Industry Association (Irish Funds) is the representative body for the international investment fund community in Ireland. Founded in 1991, Irish Funds represents[1] fund managers, depositories, administrators, transfer agents, professional advisory firms and other specialist firms involved in the international fund services industry in Ireland. Our members provide services in relation to funds domiciled in Ireland in addition to those domiciled overseas[2]. The investors in these funds are from over 70 countries around the world, the investment managers of the funds originate from 50 different countries and the underlying investments held are also truly global in nature[3].

The funds industry in Ireland

Before I get into detail relating to Brexit let me very briefly explain what it is we do. At its most basic level the industry in Ireland provides a range of services (investment management, risk management, fund administration, advisory, oversight and governance) which allow investors to pool their monies together collectively (via funds) in a regulated environment to invest so as to generate returns and manage risk. Regulated investment managers provide the ideas for these strategies and so our role is that of enabling investment and savings.

[1] As of 30th May 2017, Irish Funds has 121 member firms. For more details please click here.
[2] As at 31 December 2016 the value of Irish domiciled funds was €2.1 trillion and the value of non-domiciled funds (funds are serviced in Ireland) amounted to €2.0 trillion.
[3] There are 480 investment managers providing services to 6,470 Irish domiciled funds. Information sourced from Central Bank of Ireland, Monterey Insight Ireland Survey 2016 and Irish Funds

Ireland's funds industry has four core characteristics:

1. It is an export based services industry whose size and trajectory is not dependent on that of the domestic economy in Ireland;
2. It plays an important role in delivering investment capital into economies;
3. It is highly regulated and benefits from EU financial services passports (which I will come back to in the context of Brexit), and
4. It is sizeable and successful in both European and global terms.

The fund management and fund services industries play a key role in helping people provide for their futures and channel savings to companies, government agencies and financial institutions who have a variety of short and long term capital requirements. By collecting investment capital and deploying it efficiently to generate investment returns for individual and institutional investors with a range of risk/return objectives the industry also supports the development of a Capital Markets Union which is a key building block of the European Commission's Investment Plan for Europe.

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[4]. These facilitate EU market access by way of a combination of financial services passports, the ability to delegate certain activities, equivalence rules and other requirements. Ireland is a major fund export centre which connects investment expertise and investor demand – this has supported the growth of both our own and the wider EU funds industry over almost three decades.

4 These include but are not restricted to the directives and regulations relating to Undertakings for Collective Investments in Transferable Securities (UCITS), the Alternative Investment Fund Managers Directive (AIFMD) and the Markets in Financial Instruments Directive (MiFID).

At the end of 2016, total world-wide investment fund assets amounted to €41.3 trillion. Investment fund assets domiciled in Ireland amounted to €2.1 trillion, representing 5% of global investment fund assets and 15.2% of European fund assets[5], making Ireland the third-largest home for regulated funds globally and the second largest in Europe. The growth of the industry has resulted in success for investors, providers of funds and fund services and for Ireland (both directly and indirectly) through the employment of over 14,000 people living in at least 15 counties throughout Ireland and by providing a compelling proof statement of the country's ability to develop and scale specialist international financial services activities. In this regard I would also note our involvement in and support of the IFS2020 Strategy and IFS Ireland banner brand through our own promotional activity and in providing secretariat support to the Industry Advisory Committee under IFS2020.

Brexit

The United Kingdom's (UK) decision to leave the European Union will have a significant impact on the European (and Irish) investment funds industry given the level of interconnectivity that has existed over many years. Specifically:

- UK individuals and institutions have invested significant sums in EU regulated investment funds which are domiciled in other EU countries (like Ireland).
- UK based firms are significant providers of investment management services to EU regulated funds which are distributed throughout Europe and beyond.

[5] All data sourced from EFAMA International Statistical Release, Q4 2016

These considerations will be relevant to all EU countries but especially those, like Ireland, which are recognised funds centres. According to available data:

- Over 2,000 Irish domiciled funds are registered for sale (distributed) in the United Kingdom under passporting arrangements.

- Some 170 UK based firms provide services (via delegation) to Irish domiciled investment funds.

In addition, we believe that there will be changes to the way in which asset and fund management services are structured and delivered across the EU which will provide opportunities for Ireland if we can provide solutions.

It is also important to acknowledge that there are risks to Ireland's industry associated with the decisions which firms will take. There are also existing measures in the IFS2020 Strategy 2017 Action Plan which will further support the development of the industry (for example the updating of Ireland's Investment Limited Partnership Legislation).

Our activity and priorities

Like most other entities we have structures within the Association to respond to Brexit. Given the nature of our sector and membership, Irish Funds is the most active of the financial services sector trade bodies in Ireland when it comes to international promotion. Between April 2016 and today we have hosted over 20 international promotional events in 15 different cities across the world. Additionally, last week we hosted our 19th Annual Global Funds Conference with delegates from Asia, Europe and North America attending. Given the Brexit debate a significant focus has been the solutions which Ireland can provide. The emphasis on solutions is key and we know there is interest in what Ireland has to offer. In saying this I must acknowledge that much remains uncertain – one of the few consistent features of the process to date is that most people's assumptions regarding what will happen, when it will happen and how it will happen have been incorrect. At this point our working assumptions are:

1. the UK will leave the Single Market and Customs Union,

2. the likelihood of a special deal in relation to financial services is low, and

3. with the dis-connect between the timeframes linked to the political processes and those governing commercial considerations businesses are now moving to decision making.

Ireland must demonstrate unambiguously, not only to the UK but also to the wider international market that the funds industry here is prepared for Brexit, ready to facilitate both existing and new business and remains in a strong position to act as a bridge to the EU market. We don't see this as "I win/you lose" - instead we are focusing on providing solutions. Today we provide solutions to both EU based managers and those outside the EU and will continue to do so post-Brexit.

We have three over-arching priorities in discussing Brexit with stakeholders at home and abroad. We represent these as three over-lapping circles:

1. Inbound Distribution Access: This means maintaining continuity of UK investor access to Irish/EU domiciled funds (or in other words the ability to distribute an EU/Irish fund into the UK market).

2. Maintenance of UK Management Rights: Many Irish domiciled funds appoint an external investment manager based in the UK[6] and this needs to continue. The ability to delegate is a vital component of efficient fund structures in Europe.

3. Growth Opportunities: There are opportunities for Ireland to further expand its asset management and fund services offerings provided we:

    a. maintain an agile/effective "tool-kit" for product and service providers,

    b. deliver a regulatory and business environment which is in equal parts robust, clear, responsive and efficient, and

    c. continue to promote Ireland in a relentless, joined up and compelling manner.

Before concluding my remarks I would make a number of final points:

1. There is insufficient private saving occurring when it comes to long term needs – this is not caused by Brexit but we should not allow the Brexit process to disrupt existing savings patterns. Functioning and minimally disrupted savings/investment markets benefit investors, policy makers and economies. Given the size of the total European funds industry greater emphasis should be placed on seeking effective grand-fathering and/or transitional arrangements.

2. Brexit is surfacing both political and competitive tensions across the EU which we should not ignore. Any moves to limit the access which investors have to a wide

[6] The Central Bank of Ireland currently recognises UK managers as being eligible for this role as they fall within the scope of several EU Directives (UCITS, AIFMD, MiFIDII, CRD4 etc.) and the UK entities are able to passport their management licences into Ireland under current EU rules. However, the Central Bank also has a tried and tested regime for recognising non-EU domiciles typically where there is an MOU in place and/or that jurisdiction has a comparable model of prudential regulation applicable to UCITS and AIFMD.

breadth of fund choice or which seek to create barriers to the supply of expertise which supports our global industry should be resisted.

3. Most of the focus in relation to Brexit is relatively short-term. We must not lose sight of the fact that one of the most vocal proponents of open markets and free flows of capital (which have benefitted not only Ireland's funds industry but many other industries here) will no longer be at the policy, regulatory and political tables within the EU. This requires a continuing significant uplift in Ireland's contribution to these debates, especially as policy is formed. Our bi-lateral relationships with the UK (at all levels and especially in relation to regulatory matters) remain very important – given we don't know the final outcome we will need to be poised for quick and effective action if required.

4. Promotion of the industry, which is funded by our members and the commercial sponsorships we seek, is done in close cooperation with the office of the Minister of State for Financial Services, various Government Departments (especially the Departments of Finance and Foreign Affairs and Trade respectively) as well as IDA Ireland. We acknowledge the support received and equally point to the value we have provided by developing and building a number of valuable platforms globally for Ireland's International Financial Services message to be broadcast. We look forward to finding new and innovative ways to partner with Government to build on the already significant contribution of the industry to Ireland's national economy which will also support the IFS2020 strategy.

Thank you.