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- › **Grainne McEvoy**, director of securities and markets supervision, Central Bank of Ireland
- › **Tara Doyle**, partner, Matheson
- › **Padraig Kenny**, managing director, RBC Investor & Treasury Services
- › **Paul Giblin**, CEO, Davy Asset Management



DESTINATION

Julie Aelbrecht: How has the asset management community in Ireland reacted to Brexit? What are the concerns, and what preparations have been made in anticipation of the disruption that may arise?

› **Grainne McEvoy:** We're very cognisant of the unintended consequence of Brexit creating regulatory arbitrage, so we are very strongly discussing, both within Eiopa and at Esma, the issue of supervisory convergence and supervisory cooperation. In our view, it is key to ensure that there isn't a race to the bottom among national competent authorities. We've put an awful lot of time and effort into designing

Ireland is well positioned to build on its success in investment services, especially for ETFs, despite the uncertainty caused by Brexit

the European rules, creating a single rulebook and detailed guidance, so the regulatory regimes and supervisory approaches should be largely identical across European authorities.

› **Paul Giblin:** In the asset management community I think that there has to be a working assumption that a hard Brexit is what will happen, and therefore you need to consider the conse-

quences of that for your business. Brexit is something that requires action on the part of fund managers, but actually it has also triggered a broader sense of opportunity. This is something that we need to get on top of – we need to decide how we're going to distribute, where we distribute and the distribution priorities.

› **Pat Lardner:** The ability to continue



FROM LEFT,
PAT LARDNER,
GRAINNE MCEVOY,
PADRAIG KENNY,
JULIE AELBRECHT,
TARA DOYLE AND
PAUL GIBLIN

DUBLIN

distributing EU/Irish-domiciled products into the UK is something that people want. They also want the ability for their UK-based investment managers to continue to act as advisers for those funds, which are then distributed across Europe. That means that there will be elements of their asset management business that they may need to reconfigure or re-orientate to be able to maintain distribution and serve clients.

► **McEvoy:** In the area of cross-border distribution, the central bank might hold a view that may not be popular among some of our regulatory peers, on the issue of local facilities agents or

consistency of marketing rules across the EU. In the case of passporting fees, for example, we wholeheartedly support the reduction and elimination of such fees. The application of passporting or notification fees is not really in keeping with a single market, and would often be considered a barrier to its operation.

► **Padraig Kenny:** Although it's been a year since the referendum result, it's too early to say what this will mean for anybody over the long term. While it's common sense for contingency plans to be put in place, many will feel it's premature to pull the trigger until an understanding of how the negotiations

between the EU and UK develop.

► **Tara Doyle:** The longer Brexit takes to become a reality – the longer the agreement takes to negotiate, the longer it takes to actually have everything settled – the more jurisdictions that have a history of prudent regulation will win out. The winners will not be the jurisdictions rushing in to offer tax breaks to get big insurance companies or asset managers in, but the ones that say: 'This is what we offer, this is how we do things and this is the certainty you can expect'.

► **Kenny:** Some big firms have made big decisions about locations and so on. But, from conversations with asset managers, I don't think there have been that many that have reached their conclusions. I think a lot of them would be happy to perform their investment activities in the countries where they have previously been operating. The focus is on preserving what has taken a long time and has been very carefully constructed, inasmuch as that is possible.

► **Giblin:** The infrastructure that would be required to deal with a hard Brexit is in place. In other words, there are UK-based managers with Dublin funds and there are Irish managers distributing in the UK and so on, and indeed across the world, and all of that infrastructure is in place in Dublin today to enable that.

Aelbrecht: What global demand trends are you seeing and how do they impact Ireland and Europe? What kind of new products are being launched and which existing products are growing particularly strongly?

► **Giblin:** With the increasingly passive nature of fund management and end investors' demand for outperformance or alpha generation, people are looking at global products. If they're going to be in equity markets they want high a conviction strategy, investing in a low number of stocks globally that repre-

sent the best opportunity set available and actually demonstrates some form of outperformance over the longer term.

► **Kenny:** There is still the sort of demand we have seen for a long time for single asset classes, in big countries, in regions or even globally, but I would agree that they are becoming more and more a part of a multi-asset solution. Multi-strategy offerings also include infrastructure funds, private equity and ETFs, for example. A lot of the individual product lines for the mass market, for the Ucits retail market, are now being combined and presented as a packaged solution with a return objective that is related to the risk profile of the individual investor and more probably absolute return in nature, rather than measured relative to a benchmark.

Aelbrecht: Would you say that the lcav structure is attractive for private equity funds, or are there better solutions out there?

► **Doyle:** The lcav structure can do everything clients need a private equity fund to do – it's a very adaptable, flexible fund structure. But lcav has only been around about three years now, so it's still very new. The difficulty in practice is having to explain a new structure to investors. For clients that are selling to an existing investor base that is used to limited partnerships (LP) the lcav is just an extra hurdle they don't need, so they're less interested in it and are demanding LP structures.

► **Lardner:** For us, lcav really fills out a very nice


and complete set of tools to allow pretty much the full spectrum, from money market funds through conventional funds, in either the active or the passive space, to alternatives. There is clearly penetration of things such as ETFs and there is a strong track record in hedge funds, absolute return-based funds that still work within the Ucits guidelines, and now we add into that private equity, infrastructure and real estate, it rounds it out. Given the growing importance of private and real asset investing we felt it was also important to update our investment LP legislation that recognises the use of this structure and how it fits in with the needs of investors. This process is underway and will further complete our range of available fund structures.

► **Giblin:** We are seeing consolidation taking place at the largest end of the fund management industry. It has been well-voiced, but the industry again is bifurcating between essentially a group of very large solutions companies – very big brand name firms that want to offer everything to their end investors when they come in the door – all the way down to more focused, alpha generating boutiques.

► **McEvoy:** It might be interesting to note that of all the umbrella structures established in the last eight months have been lcav structures, so while it has a short history it's very much a popular vehicle.

Aelbrecht: The Irish Central Bank recently published a whitepaper on ETFs. What was the aim of this whitepaper?

► **McEvoy:** We looked at ETFs from the context of dealing arrangements, how primary dealing happens, how secondary dealing happens, how liquidity is provided not only at the underlying asset level but by the use of authorised participants and other players. We also examined how ETFs utilise collateral management techniques and manage counterparty risk. Once we get all of the responses back, we'll take stock of the situation and evaluate how we can influence European and international policy debates, and also whether our regulatory regime requires amendments.



“ Firms must be in a position to demonstrate the control and oversight of those outsourced functions and to ensure it is properly monitored and managed by the Irish operation ”

Grainne McEvoy, Central Bank of Ireland

► **Kenny:** There is also a connection between the active versus passive debate and the sort of fees that are appropriate, so it gets into the commercial side of asset management as well. Can value be added and what are the total costs for the investor – can sufficient returns be made available relative to all those costs?

Aelbrecht: The European ETF market is still quite small compared to that of the United States. 56% of European ETFs are Irish – as the market grows will Ireland be able to sustain its position as the largest jurisdiction?

► **Lardner:** You have to ask: why is it 56%? The reason is that there are a range of capabilities here that have facilitated this growth. We expect to see an increase in investment fund assets generally and our growth rates across all segments, typically, have been higher than any other market. But we would be in no way complacent about making sure that we continue to deliver the services to support ETF launches and distribution.

► **Giblin:** It is inevitable that any product that grows at this pace will experience issues along the way. An example is in the high yield bond market, where you have a mismatch between the liquidity that's available to the end investor and the actual liquidity of the underlying market. In terms of future growth there's no reason that the market won't continue to grow and it's far better for Ireland, as a big stakeholder, to be seen to be leading the thought process rather than reacting to it.

► **Doyle:** I think growth is going to come from the existing models and existing participants, the really big ETF players that are comfortable with Ireland, with its regulatory and service provider environment. But it's also going to come from innovation, new entrants into the market and new product types, I think that's really key. As the leading ETF jurisdiction we have to be able to deal with the existing managers and product types, but also be open to innovation.

► **Lardner:** In the same way that there's no single manifestation of what constitutes active management or passive/beta management, therefore there's no one particular description of an ETF solution. If you go back over many decades of development of active management strategies

“ It's incredibly important that the growth continues and it's supported by what is already a robust regulatory environment ”

Padraig Kenny, RBC Investor & Treasury Services



or fixed income management strategies, of illiquid asset management strategies, they've all taken different twists and turns along their path of evolution as they've grown and gathered assets. Therefore, it's reasonable to expect that the same is happening in delivering a combination of risk and return within ETFs.

Aelbrecht: What other areas of innovation are there? What opportunities are there within loan origination?

► **Doyle:** People are interested in debt and loan origination, it's an increasingly popular asset class. To investors this is an area where they can achieve yield, more so than just traditional fixed income investing. Where we had a block was we didn't allow loan origination in Irish funds, we released that block two and a half years ago. A lot of other jurisdictions don't have rules around their loan origination products, or if they have rules they're a lighter touch than the rules that we have, so that presents something of a challenge for Ireland. There are loan origination funds being established here, people are embracing the product, but maybe not in the numbers they would if they weren't able to actually set them up in other jurisdictions with a lower regulatory threshold.

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Tara Doyle, Matheson

➤ **Giblin:** It's a difficult one, because the growth in loan origination is a structural change in the market that will continue for many years. As investor demand picks up, it will move into a much more regulated environment – in a sense it will move into the fund structures that Ireland is prepared for. The problem is that actually the activities are taking place outside of that environment, in structures such as limited partnerships today in other jurisdictions. We are either going to have to wait for the industry to move towards our fund structures, which will require a lot of patience, or we look at other jurisdictions and match their structures.

➤ **Lardner:** It links back to what investors are looking for. It's increasingly important that you have the ability to introduce these different types of return and risk streams and combine them. So, you need to be able to originate or provide these services within portfolios, you need to be able to mix and meld them in with other parts of your investment exposures that you're putting into products.

Aelbrecht: How do you see the regulation of the Irish funds industry evolving over the medium term, and how do the changes at losco and to the Capital Markets Union impact that?

➤ **McEvoy:** The losco investment management committee has shifted its focus away from the Sifi debate towards the assessment of structural vulnerabilities. Specifically, losco has undertaken quite a bit of work on leverage and liquidity within investment funds. The real areas of focus include methodologies for calculating leverage, identifying where leverage builds up in the system, what interconnectedness exists and how to identify where there's pockets of build-up, as well as what to do in these kinds of scenarios and what the appropriate regulatory approach should be.



This topic has been the focus of attention not only of losco but also the FSB.

➤ **Giblin:** The idea that you would not have seamless distribution across the European Union would just be extraordinary in terms of costs. It would be very disappointing if, after Brexit, rather than continued integration across all markets within the eurozone, local interpretations begin to dominate once again in an effort to gain market share.

➤ **Lardner:** We've had a continuum between policy, regulation and supervision. Now we've clearly had an acknowledgement that the investment fund management industry is an important contributor to the financial system and a source of capital for the real economy. We are big advocates of removing barriers at borders and we would as an industry have a very heightened sense of alert to anything that suggests reducing product choice or solutions choice for investors, or that you could not deliver those through a pretty broad range of organisational structures as well. Ultimately, they're the things that allow product choice and solutions to get to the market and feed capital into economies.

➤ **Aelbrecht:** How are management companies preparing for CP86? What are their biggest challenges and how are they addressing them?

Our San Francisco Office is **Open for Business**

Matheson



Pictured at the announcement of Matheson's San Francisco Office Opening are from L-R Mark O'Sullivan, US Resident Partner, Anne-Marie Bohan, Head of Technology and Innovation, Chris Bollard, Partner, Technology and Innovation, Michael Jackson, Managing Partner, Emma Doherty, Partner, International Business Group, and Robert O'Shea, Head of the Corporate and Commercial Department.

Matheson Opens Second West Coast Office

Matheson is proud to announce the opening of our new San Francisco office. With five partner-led global locations, we are ideally positioned to serve the Irish legal needs of our International clients and our Irish-based clients with an international focus. We have a wealth of global experience, and we act for 7 of the 10 leading global technology brands and the majority of the world's Fortune 100 companies. We also bring our unique brand of innovative thinking and client-focused solutions to over half of the world's 50 largest banks. Matheson ensures our clients go further by delivering unrivalled results and expertise through a world-class team.

To arrange a meeting to discuss your Irish legal needs, contact us at any of our locations below.

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› **Doyle:** We have until July 1 2018 before existing management companies have to comply with CP86. That long lead-in time is something that was really welcomed by the industry. Every single management company is going to have to realign its business plan and look at whether the models it has make sense, whether it needs to appoint different designated persons and whether it needs to change its board composition.

› **Kenny:** We see the governance practices of our clients that have 1940 Act fund boards in the US European governance structures. What is evolving and being put in place in Ireland is going to build on what we have and take any other good practices available internationally. We should take maximum advantage from the types of people and skills that are around the table.

› **Giblin:** As a fund manager, our management company is already CP86 compliant a year ahead of time. But when I look at the activities, areas such as organisational effectiveness and distribution, those sorts of things, and the impact that they will have both on whoever the appointed person is and the directors, I think it's a challenge that shouldn't to be underestimated. It's

going to be interesting to see how people get on with that.

Aelbrecht: The Irish Central Bank has said that it will start a cross-sectoral review of outsourcing practices. What do you anticipate the result will be and how has the industry reacted?

› **McEvoy:** It's quite obvious that not just fund service providers but banks, insurance operations and asset managers all engage in some degree of outsourcing. That's a normal course of events. Our focus is the governance and controls for outsourcing, ensuring that the balance is right between the mix of activities that occur within Irish operations and those that are delegated or outsourced to other parties. Firms must be in a position to demonstrate the control and oversight of those outsourced functions and to ensure it is properly monitored and managed by the Irish operation.

› **Lardner:** It's always dangerous to generalise, but we haven't seen issues in this space. It's acknowledged there's

a range of models. We've been at this for 25 or 30 years and we're now servicing circa 900 investment managers from different jurisdictions. We have a full suite of providers and within that there are lots of ways of delivering those services, which are driven by client needs and the changes that exist

in the outside environment as well. It's something we'll continue to work on.

› **Kenny:** I would say the question is probably most directed at custodian banks and administration service providers, and all of those firms, of which we're one, have global operating models. They've had different models, they've worked on different timescales, and they've had different levels of automation coming in. So, it is timely to try and have a full view of what's happened in operating models over the last say 15 years, because in the early days everything was done here, then it was a very

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gradual thing, and it's probably now accelerating.

Aelbrecht: Ireland has secured a Chinese RQFII quota. How is it being used in practice and do you see any other international deals coming up in the future?

➤ **Lardner:** The People's Bank of China granted Ireland RQFII quota in December last year. It was an important development because it signalled a willingness for cooperation between the two jurisdictions, and it recognises the fact that China will be an important destination for inbound investment by global managers. With quota, Ireland can provide another important access route for global managers. Secondly, as the Chinese investment management industry internationalises it will need to find ways to distribute – hence the point of selecting Ireland as a fund and distribution base to attract European capital.

Aelbrecht: Have any new areas of financial and regulatory technology emerged recently, or grown quickly?

➤ **Lardner:** In close proximity we have a very, very significant financial services hub and a technology hub. Within literally a square mile in Dublin there are representations from 15 of the top 20 banks in the world, eight of the top 10 software companies in the world and seven of the top 10 born-on-the-Internet companies. All of the skills are here, the question is how do we apply them? We are doing our part by fostering collaboration across our member firms, which is in addition to the many initiatives being undertaken by individual companies.

➤ **Giblin:** There is also the digital distribution angle. Everybody talks about robo-advisers taking over the world and enabling distribution. First of all, we're living with an emerging population that has grown up in the information age. They're going to want to access financial services, so why not invest in funds digitally? That's something that should be enabled. However, I think replacing people and advice and imagining investors will just buy and sell funds on our phones is some way off.

➤ **Doyle:** One of the themes that we're seeing

emerge is the idea of convergence between financial services and technology, to the point where financial services companies are saying they're not an asset manager anymore, they're a tech firm. Then you have the tech firms and the technology brands increasingly going into financial services, for example Facebook with its payments capability. Ireland is really well placed to capitalise on this convergence, given its history as a European technology hub.

Aelbrecht: PwC predicted that the funds industry will grow to €4.7trn. Where will this €500bn+ in growth come from?

➤ **Kenny:** There is a global requirement for greater savings as people take responsibility for their own pension futures, which is going to lead to growth in overall assets under management and administration around the world. I think that leads to inevitable growth in the overall scale and size of the asset management industry globally, so Ireland should make sure it will play an even larger part in it. I think that it's incredibly important that the

growth continues and it's supported by what is already a robust regulatory environment. We can, in fact, go beyond our targets.

“As the Chinese investment management industry internationalises it will need to find ways to distribute – hence the point of selecting Ireland as a fund and distribution base”

Pat Lardner, Irish Funds

