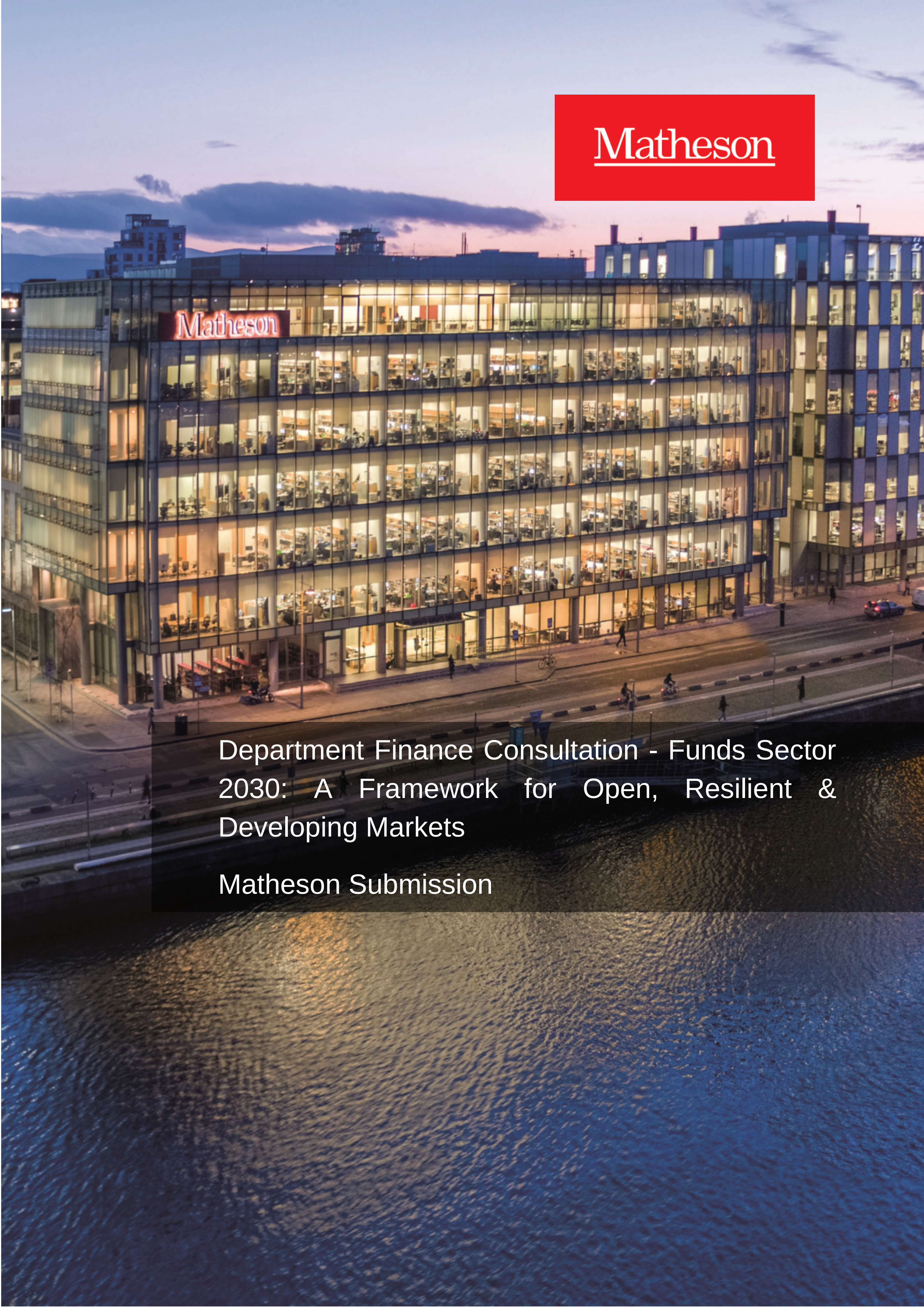

Matheson

Department Finance Consultation - Funds Sector 2030: A Framework for Open, Resilient & Developing Markets

Matheson Submission

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Dear Review Team

Matheson Response to Funds Sector 2030: A Framework for Open, Resilient and Developing Markets Consultation

Section 2: Investment funds and asset management landscape

1 What policy supports have been most impactful in attracting the funds sector to Ireland and/or the EU in recent decades?

The key factors that have driven Ireland's success as an international fund domicile include:

- The provision of a dedicated regulatory framework for investment funds, which provides stability, efficiency and transparency.

- Ireland was the first regulated jurisdiction to provide a regulatory framework specifically for the alternative investment fund industry and has been at the forefront of product innovation, providing opportunities and solutions for this sector.

- The provision of a fast track authorisation process for QIAIFs, with speed to market being a key factor underpinning the success of the QIAIF regime in Ireland. Although the perceived efficiency of this process may have been undermined to an extent by the introduction by the Central Bank of Ireland ("**Central Bank**") of a pre-submission process for QIAIFs investing in certain assets or having particular features, we welcome recent enhancements to that process restricting the process to QIAIFs investing in Irish property assets and crypto-assets. The QIAIF fast track process is an important consideration for managers and the certainty and transparency attached to that process should be protected and preserved.

- The constructive engagement between industry, the regulator and relevant government departments in relation to ensuring that Ireland offers a suite of fund vehicles suitable to meet managers' strategies, including in particular the introduction of a bespoke corporate fund vehicle under the Irish Collective Asset-management Vehicle Act 2015 and enhancements to the legislative regime to make Irish investment limited partnerships ("**ILPs**") more attractive has contributed towards offering fit-for-purpose fund vehicles and enhancing Ireland's reputation as a fund domicile of choice.

- The timely transposition of EU legislation, from the transposition of the UCITS Directive in 1989 to the AIFMD in 2011 (Ireland was the first country to accept AIFM applications for authorisation) has assisted in establishing Ireland's reputation as providing an efficient and pragmatic legislative framework and process.

- The pragmatic approach of the Central Bank towards implementation of the complex requirements of the EU's Sustainable Finance Action Plan, by introducing streamlined filing procedures in consultation with industry, was significant in ensuring relevant legislative deadlines were met and in positioning Ireland as a centre for sustainable finance and a domicile for ESG-related products.

- The establishment of a specialist tax regime for investment funds and Ireland's favourable tax treaty network.

- The development of Ireland's professional services infrastructure leading to a deep talent pool with experienced, specialist legal, tax and accounting skills.

- The expertise developed within the Central Bank in relation to investment instruments and strategies utilised by the promoters of Irish funds and its ability to engage with those promoters and asset managers in a timely and constructive manner on new product proposals. A good example of this was upon the introduction of UCITS III across Europe, facilitating the enhanced use of derivative strategies. Ireland's historical familiarity with alternative investment and hedge fund strategies and related risk management requirements, together with the establishment of the Central Bank Derivatives Unit, meant that Ireland was seen by alternative asset managers as being a better jurisdiction in which to establish and develop their fund products.

- Ireland has a well-developed infrastructure with sophisticated telecommunications networks and local availability of highly educated labour.

- Ireland has direct daily flights to and from the US and all of the EU's major financial centres and transport hubs. Increased investment in transport infrastructure and ongoing efforts to develop and enhance inter-governmental relationships will ensure that Ireland remains a connected financial hub.

2 What characteristics set Ireland apart from other jurisdictions when selecting a fund's domicile?

The Views of Asset Managers

Some years ago, the Economist Intelligence Unit ("**EIU**") conducted an independent survey of 200 global asset managers on behalf of Matheson which sought respondents' views on the leading European fund domiciles, and the most important factors which guide a domicile decision. While the survey predates a number of significant geopolitical and regulatory events that have impacted the investment funds industry, such as Brexit and the progression of the sustainable finance agenda, we believe that its findings are still instructive, based on the views expressed in our ongoing engagements with our clients.

The key findings from the survey included the following:

- As regards financial and business factors, managers ranked the cost of doing business as most important, followed by tax treatment of fund vehicles. Third was presence and range of double tax treaties.

- In terms of market and distribution factors, managers ranked as most important speed to market, followed by investors' perceptions of a specific jurisdiction, followed by a jurisdiction's reputation and longevity as a funds centre.

- Amongst legal and regulatory factors, managers ranked the approach to implementing the AIFMD as most important. This was followed very closely by the sophistication of the national regulator and in third place was the approach to implementing the UCITS Directive.

Interestingly, managers rated having existing fund ranges and business relationships in a jurisdiction as the least important financial and business factor, which highlights that investment of the international asset management community is mobile as between the various European fund domiciles competing for its business. Given this mobility of investment, only those jurisdictions which continue to provide the right environment and which remain competitive will continue to satisfy the needs of managers and survive in the long term. Factors which strengthen Ireland's position and capacity to remain competitive include an established professional services cluster and a sufficiently sophisticated regulator and we need to ensure that we continue to develop and promote these characteristics to gain competitive advantage.

Legal and Regulatory Environment

Ireland offers a world class legal and regulatory environment, which must be further developed and enhanced to prevent against stagnation and reversal in light of competitive pressures. Many of the world's most prominent service providers have established substantial operations both in Dublin and throughout Ireland. A tax efficient and sophisticated regulatory framework is supported by an enduring political commitment to facilitate the development of Ireland as a leading centre for international financial services, including investment fund management and administration activities.

A Sophisticated Regulator

The Central Bank is the regulatory authority responsible for the authorisation and supervision of regulated financial service providers and Irish investment funds. The role of the Central Bank in working closely with the industry stakeholders to tailor its regulations to accommodate a range of investment products with different structural features is an important element of an effective regulatory regime. The Central Bank's due consideration of developing industry practice (and willingness to engage constructively with asset managers on evolving strategies in an open and timely manner), whilst having regard to its duties to protect investors, and promote financial stability, has over the years been characteristic of the robust and energetic regulatory environment for financial services in Ireland.

The stability, efficiency and transparency of the Irish regulatory regime are key factors for investors and asset managers considering investing in or distributing financial products in and from Ireland.

Ireland as a Listing Venue

Euronext Dublin (formerly the Irish Stock Exchange or ISE) is internationally recognised as a leading regulated exchange for the listing of Irish and non-Irish domiciled investment funds. A stock exchange listing on a recognised exchange in an OECD jurisdiction, such as Euronext Dublin, can be particularly important for the profile of a fund, attracting certain categories of institutional investors or investors in certain jurisdictions who are prohibited or restricted from investing in unquoted securities.

In addition to the recognised regulatory status of Euronext Dublin, other factors such as speed and efficiency of listing, and comparative cost effectiveness, have contributed to the development of Ireland as a premier international centre for the listing of investment funds domiciled in Ireland and elsewhere.

3 What are the most important trends evident in the sector?

The key trends evident in the sector include:

- The increased demand for private assets investment funds, such as private equity, private credit, real estate and infrastructure.
- The increased demand for indirectly regulated AIF vehicles, to facilitate private asset investment funds.
- Increased interest on the part of managers in establishing European Long Term Investment Funds ("**ELTIFs**") under the enhanced EU framework, due to become effective from January 2024.
- Growing investor demand for sustainable solutions and ESG-related investment products, accompanied by increased legislative and regulatory scrutiny and focus on sustainable finance.
- Technological innovation, including the development of distributed ledger technology, cloud computing, data analytics and artificial intelligence. There is significant potential for artificial intelligence, for example, to enhance asset management operating

models. This could include simplifying and strengthening research functions or analytic support for sales and marketing.

- Increased focus on cybersecurity, data privacy and regulatory reporting and compliance, necessitating investment in improved processes and systems to address risks and protect investors.

- The continued growth in passive investing and the related growth in exchange traded funds ("**ETFs**"), influenced in part by an increasing focus on fees. Recent years have seen a significant amount of active management being transferred into lower-cost passive investment strategies and exchange traded funds.

- Greater focus by asset managers on streamlining and what to stop investing in to mitigate against a potential global recession.

4 What are the key risks and challenges for the sector in the medium- to long-term and how can they be managed?

The key risks and challenges for the funds sector include:

- **Competition Risk**

  There is a risk of Ireland becoming non-competitive. In our view, the Irish fund industry does not have sufficient public sector resources and support to ensure that Ireland responds quickly and effectively to market trends and developments in competitor jurisdictions.

  There is also a risk of Ireland not having the necessary agility from a policy, legal and tax perspective to move in line with market developments, and to meet the ever changing requirements of investors and fund promoters.

- **Improving the Quality and Use of Data**

  Increased regulatory reporting and disclosure requirements, particularly with respect to sustainable finance, accompanied by increased investor demand and the need for quality data to support better investment decisions, requires asset managers to focus on how to obtain accurate, reliable and comparable data.

  To use compliance with the EU's sustainable finance framework as an example, the lack of availability of reliable, comparable sustainability data is one of the most significant impediments for asset managers, asset owners and wealth advisors in meeting the requirements relating to sustainable finance disclosure. Many fund managers may have opted to disclose 0% Taxonomy alignment, not to consider PAIs of investment decisions on sustainability factors, or not to classify their investment strategy under Article 9 SFDR based upon their inability to access reliable data to support the relevant disclosures. This not only undermines the legislative purpose of these disclosures, but also undermines investor confidence and makes it more difficult for investors to make well-informed investment decisions based on their sustainability preferences.

  The European Commission's proposal to regulate ESG rating providers is a welcome development in this regard, but a broader focus on data vendors generally may need to be considered to ensure the reliability and comparability of data that underlies investment decisions.

- **Increased Operational Expenses**

  A number of factors are contributing to rising costs, including increased deal competition, regulatory scrutiny and business complexity. This may impact smaller fund managers to a greater extent, potentially leading to further consolidation in the market and reducing choice and competitiveness for investors.

  With regard to the impact of regulatory change on operational expenses, regulators and legislators could allow more time for new requirements to become established before making further changes, which inevitably leads to rising costs. An example of this is the EU sustainable finance framework, where Level 1 legislation applicable from 10 March 2021 and Level 2 legislation applicable from 1 January 2023 is already under review and further changes will lead to increased regulatory compliance costs.

- **Regulatory Risk**

  There is likely to be increased regulatory focus on business continuity and liquidity management, leading to changes to existing requirements and new requirements in these areas. Increased regulation leads to increased costs, with the potential for declining margins and higher fees.

From an Irish perspective in terms of servicing asset managers who are managing the above risks, the continued ability to offer a flexible range of structuring solutions in terms of investment vehicles and a range of regulated and indirectly regulated vehicles will be important in terms of ensuring that Ireland remains a location of choice for EU and international asset management firms. Realistic timelines in relation to the adoption and implementation of new legal and regulatory requirements will also assist in managing operational expenses and regulatory compliance costs.

From a global perspective, international investment fund managers, including managers with funds domiciled in Ireland, face the following risks:

- **Climate Risk**

  Extreme weather events may impact underlying portfolios. There is also the risk that changes in government policy and regulation, such as for example banning the sale of petrol or diesel vehicles, and consumer behaviour may result in some companies becoming un-investible, creating stranded asset risk for those holding these assets.

- **Cyber Risk**

  Asset managers must put in place robust processes and systems to address the increasing threat from cyber-attacks, to which financial undertakings are particularly vulnerable.

- **Geo-political risk**

  This risk is ever-present, with Brexit and the war in Ukraine being notable past examples.

- **Technology Risk**

  While technological innovation presents many opportunities, innovations such as distributed ledger technology, artificial intelligence and digital assets also carry potential risks which may not be fully understood within the industry.

- **Macro Risk**

  Inflation risk, market volatility and the potential for global recession are leading to uncertainty in the industry.

- **Resourcing**

  Particularly in the areas of sustainable finance and FinTech, the complex matrix of requirements under EU law and the detailed and technical nature of those requirements, together with the pace of change, means that asset managers, their service providers, government departments and regulators must ensure that their staff are adequately trained and have the necessary skills, expertise and experience to understand the issues and address the challenges arising from implementation and technological innovation. This may necessitate recruitment in addition to training of existing staff. This creates a highly competitive environment for ESG and tech talent in particular.

  Investing in systemic knowledge development and ensuring that Ireland is an attractive location for suitably qualified, educated, skilled professionals to work are key in managing many of these risks.

5 What are the key opportunities for the sector in the medium- to long-term and how can they be delivered?

Key opportunities:

- Ireland can benefit from the increasing investor demand for private funds and alternative assets by promoting and continuing to improve the enhanced ILP framework and ensuring that the regulatory framework is in place to accommodate the authorisation of ELTIFs from January 2024. A structured, government supported campaign, to market Irish ILPs and ELTIFs to fund managers, investors and international law firms, is crucial to capitalising on this opportunity.

- The introduction of new product offerings, such as indirectly regulated AIFs.

- Ongoing constructive engagement between industry, regulators and relevant government departments is essential to ensure that Ireland successfully implements the sustainable finance framework and is in a position to benefit from the increased investor demand for sustainable and ESG-related products.

- Development of technology skills and expertise will support the sector in employing technology to improve regulatory compliance, risk management, operational efficiency and investor experience.

6 How will technological change and innovation influence the sector's future development?

Supporting Regulatory Compliance

Technology can support compliance with ever-increasing regulatory reporting requirements, leading to efficiencies from a time, cost and resourcing perspective.

Supporting Business Efficiencies

Technology supports business efficiencies, particularly through the automation of manual processes. Risk management and regulatory compliance are two areas in particular where technology solutions have made and will continue to make a significant contribution to efficiency.

Marketing and Distribution

There is ongoing and increasing investor demand for digital and mobile marketing and distribution channels and this consumer demand will stimulate innovation and transformation. This is likely to lead to increased use of distributed ledger technology in distribution.

Product Innovation

Technology will continue to play a significant role for asset managers in introducing new product capabilities. There is also growing investor interest in digital assets and tokenisation. In order to remain competitive, fund managers will need to embrace new technologies and invest in technology innovation, particularly if they are to appeal to younger investors. The increased use of artificial intelligence and data science in the sector has the potential to enhance customer experience and improve investment decisions.

Demand for Tech Skills

The growth of Fintech means that there is a burgeoning demand for technology specialists within the asset management industry who understand both exploiting the potential of technology and also mitigating the risks presented.

Regulatory Approach

Regulators should have an open approach to technology so as not to stifle innovation, while being mindful of the potential risks.

7 How best can Ireland position itself in the future as a location of choice for EU and international firms?

We need to continue to build on the factors outlined in our answer to questions 1 and 2 that have supported the successful development of the funds sector in Ireland and that have differentiated Ireland from competitor jurisdictions. Some key areas of focus include:

- A policy and regulatory environment which is internationally renowned for its responsive and adaptive nature.
- A full set of products and vehicles to support public and private asset strategies.

- A range of indirectly regulated AIF vehicles, including a partnership vehicle, that are comparable to those offered by competitor jurisdictions.

- Providing regulatory transparency and certainty so that fund managers considering establishing ranges in Ireland have a clarity regarding regulatory requirements, authorisation processes and the likely approach of the Central Bank.

- We welcome the Central Bank's commitment over recent years to engage with industry and ascertain how the authorisation process can be enhanced. The length and cost of the authorisation process is a significant factor for fund managers. Clarity as to regulatory requirements is also critical in this regard. We would highlight the enhanced scrutiny process for UCITS in particular in this regard and would welcome more clarity from the Central Bank in relation to the application of this process. Our experience had been that the pre-submission process for certain categories of QIAIF vehicles caused significant delays for some investment managers in bringing products to market and had been a material factor in promoters electing to domicile their funds elsewhere. Accordingly, we very much welcome the enhancements to that regime as part of a review of authorisation procedures by the Central Bank. Transparent, meaningful and suitably resourced escalation procedures in the authorisation process would also be welcome.

- While we do not consider gold-plating of legislative requirements to be an effective means of strengthening the sector in Ireland, there may be instances where complementary regulatory guidance should be considered to provide stakeholders with clarity on the regulatory approach to the implementation of EU requirements. We would highlight the sustainable finance action plan as an area of particular focus in this regard.

- There should be a continued focus on constructive engagement between industry, the Central Bank and relevant department officials.

- We also recommend continued efforts to promote systemic knowledge development and to address the evolving competencies required of regulators, senior managers, those making investment decisions and giving financial advice, and service providers, including legal professionals.

- Many of the key developments impacting the industry, particularly sustainable finance, would benefit from a holistic, multi-disciplinary, cross-governmental approach that exploits the opportunities and addresses the challenges presented by significant developments impacting the industry such as the evolution of the sustainable finance agenda. As a relatively small country, with a well networked community and a reputation for agility, there is a real opportunity for competitive advantage by adopting this approach. This process could potentially extend to the introduction of an annual Asset Management or Financial Services Act which provides an opportunity to enhance further our offering and to address any issues identified in the course of the previous year.

- We should also continue to ensure that our regulators and representatives have a prominent place in international fora discussing issues impacting investment funds, so that we have an opportunity to input on and shape the agenda and ensure that Ireland has a leadership role in the development of legal and policy initiatives. We acknowledge the significant investment the Central Bank has made in developing its relationships and reputation at international fora and recommend that this investment continue to be resourced and supported.

8 How can Ireland best support the growth and development of the market for ESG products and the transition to carbon neutrality?

We believe that the measures and initiatives set out below would support the growth of sustainable finance in Ireland, the development of ESG products and the transition to carbon neutrality.

A Holistic, Multi-Disciplinary Approach by Government

- Sustainable finance has implications across a number of government departments. A straightforward example is the interaction between the corporate reporting requirements of the CSRD, the transposition of which will come within the remit of the Department of Enterprise, Trade and Employment, and the disclosure requirements for financial market participants ("**FMPs**") under the SFDR / EU Taxonomy Regulation. However, sustainability and sustainable investment will have implications and opportunities across all areas of government and therefore a holistic, multi-disciplinary approach should be adopted by government so that there is cross-departmental awareness and understanding of the relevant issues and an appreciation of the inter-relatedness of those issues.

- Ireland has an opportunity to be first among equals in this regard. As a small nation, Ireland can be nimble and adaptive. We welcome the references to a "whole of government commitment" / "across all of government" in the Ireland for Finance Action plan 2023. A framework should be put in place to ensure information sharing and joint decision making across government departments with respect to sustainable finance matters.

- This framework could include, for example, a coordinating body which would be tasked with setting national priorities to ensure capital is channelled into sustainable investments and to promote the development of sustainable financial products. This coordinating body would receive input from relevant government departments and regulators and in turn communicate national priorities to those entities and facilitate knowledge and skills sharing between them to ensure a holistic approach is adopted and that all stakeholders are fully informed of developments, challenges and opportunities in all relevant government departments / the regulator.

Engagement at EU Level and in International Fora

- Ireland should continue to ensure that it has a prominent place at the table in key fora discussing sustainable finance issues and developing policy and legislation in this area, particularly on key committees in ESMA. Ireland is well-placed to take a leadership role in this debate in light of its established reputation as an international financial services centre with a deep talent pool, particularly with respect to ESG matters. This engagement should afford an opportunity for Ireland to shape and influence policy and legislation from the earliest stages and before final legislative provisions are enacted.

Engagement with Stakeholders

- The Central Bank has a successful track record to date of engaging constructively with industry to implement the legislative initiatives arising from the Action Plan. The regulator and government departments should continue to consult with all relevant stakeholders to ensure a complete understanding of the challenges and opportunities in sustainable finance and the effective and efficient implementation of legislation.

- In this regard, the establishment of the Climate Forum, which will meet twice yearly, is a welcome development and we also suggest ongoing and more frequent engagement between relevant stakeholders to focus on specific opportunities and challenges as they arise.

College of ESG Experts

- A great number of Ireland's ESG experts hold positions in domestic regulatory bodies connected to financial services, but are currently operating without significant touchpoints with one another. Increasing the frequency and quality of interactions between experts must be a priority for policymakers seeking to place Ireland as a forerunner in global ESG-linked finance. To improve the flow of communication, consideration should be given to the formation of a college of ESG experts, a network comprised of representatives from the Central Bank, the Corporate Enforcement Authority, the Pensions Authority, the Sustainable Energy Authority of Ireland ("**SEAI**"), the IAASA and others who would share their insights into emerging challenges and opportunities in the area. Such a network would likely yield alignment across industry on ESG matters and ensure Ireland is a first-mover on ESG in the financial services industry.

Prompt Transposition of EU Laws

- Ireland should seek to obtain first mover advantage with respect to the transposition of EU laws and to ensure that member state discretions are exercised in a way that best meets Ireland's needs and objectives.

Financial Literacy – Green Finance Education Programme

- Achieving Ireland's aim of becoming and remaining a sustainable finance centre of excellence, is a challenge which must be met with buy-in at all societal levels, including consumers, business groups and government. To ensure all potential stakeholders are equally equipped with the requisite skills and expertise when engaging in sustainable finance activities, further investment should be made in initiatives, like the Sustainable Finance Skillnet, which are geared towards adequately informing the public of the potential benefits, risks and overall operations of sustainable finance and developing skills and leadership capacity to advance ESG best practice. Educating businesses on the availability of grants and steps involved in obtaining them should also be prioritise so as to incentivise a greater uptake of sustainable business practices and hasten the transition for businesses to sustainable, profitable operating models. Awareness and expertise both within government, the regulator and industry are essential to facilitate the smooth implementation of initiatives.

Complementary Regulatory Guidance

- While we do not believe that gold-plating of EU requirements is an effective way to differentiate Ireland as a sustainable finance centre of excellence, regulatory guidance on key implementation issues such as on how to address data gaps and on the use of "best efforts" would assist in the consistent application of the legislative requirements. The Central Bank should engage constructively with industry to identify areas where domestic guidance might facilitate the implementation of initiatives and differentiate Ireland as a jurisdiction with a coherent, consistent and predictable regulatory environment.

Increased Focus on the "S" in ESG

- EU initiatives under the Action Plan have placed considerable emphasis on the "E" in ESG and there is the potential for Ireland to differentiate itself as a jurisdiction prioritising socially sustainable investing. We would recommend a renewed focus on a social impact framework. Social impact objectives should be clearly identified and communicated and the elements of the framework should be clearly aligned to the stated desired outcomes. The framework should include a system for collecting and analysing data on the progress towards achieving those social impact objectives.

Tax - Carbon Credits, Emission Allowances and Benevolent Payments

- Carbon credits and emission allowances are an important part of the collective goal to reduce emissions globally. The EU Emissions Trading System was the first of its kind. Similarly, the UN's Clean Development Mechanism is a carbon offset scheme. More recently, China implemented its own emissions trading system and, in November 2022, the African Carbon Markets initiative was launched during COP27.

- Carbon trading is a growing commercial industry, though there is also a growing trend of philanthropic activity in financing transactions, whereby carbon credits generated from financed projects are donated or gifted to foundations with sustainable mandates. Ireland could consider developing itself as an international centre for financing projects which produce credits or allowances, whether they are ultimately traded for commercial gain or for philanthropic purposes.

- For example, Ireland's securitisation regime is broadly used in international financing transactions. It currently facilitates some carbon transactions and could become an international solution for financing carbon reduction projects, though its use in a philanthropic environment is restricted by tax legislation and is often discounted in carbon transactions as a result.

- In recent years, we have encountered Irish taxpayers who consciously acquire excess carbon credits and emission allowances and donate them to foundations with sustainable mandates as part of their corporate ESG strategies.

- In addition, there is also a growing international trend that financing transactions include more general philanthropic payments to organisations with sustainable mandates, with financial products being offered to investors supported by those transactions. (An example of this is the landmark marine conservation bond transaction involving a debt conversion for the Republic of Ecuador, supporting marine conservation in the Galápagos Islands – see https://www.matheson.com/news/detail/2023/05/23/credit-suisse-advised-by-matheson-llp-on-largest-debt-conversion-for-marine-conservation-to-protect-the-gal%C3%A1pagos)

- In this context, Ireland could develop targeted tax policy to ensure that its existing international financial services offerings could be leveraged to facilitate both commercial and philanthropic activity in sustainable financing transactions, which produce carbon credits, emissions allowances or involve recurring payments to foundations with sustainable mandates.

- Specifically, consideration could be given to:

  - ensuring that tax definitions are flexible and clear, so that all government, United Nations or other internationally recognised carbon schemes credits qualify for Ireland's securitisation regime. Our current definitions are overly complicated, rigid and unclear;

  - permitting a tax deduction for philanthropic gifts or donation of carbon credits or allowances or other benevolent payments to organisations with sustainable mandates, without a requirement that the activity must be wholly and exclusively for business purposes or subject to any arm's length requirement; and

  - removing uncertainties as to whether benevolent payments or donations or recurring donations of carbon emissions or allowances could be subject to Irish withholding taxes.

- Technical VAT considerations would also need to be examined to consider if it was possible that such carbon transactions could be effected in a VAT neutral way.

Promoting and Facilitating Fund Vehicles for Sustainable Investment

- The profile of Ireland's enhanced ILP vehicle should be raised internationally so that FMPs are aware that Ireland now has a fit for purpose partnership vehicle that will facilitate ESG strategies. While significant work has been undertaken by law firms and consultancy firms to ensure that their clients and counterparts in other jurisdictions are aware of the potential of the ILP in advancing the sustainable finance agenda, efforts should be made in trade missions and other government engagements with foreign counterparts to increase the awareness of the key features and benefits of the ILP.

- The ELTIF should be accommodated within the Irish regulatory framework before the application date of the ELTIF Regulation reforms, ie, 10 January 2024. Market participants are already showing a keen interest in the reformed ELTIF framework and it is likely that there will be increased uptake of the framework as soon as the reforms are introduced. Ireland should be in a position to move quickly to accommodate this increased demand.

Corporate Power Purchase Agreements

- The SEAI has compiled a roadmap on Corporate Power Purchase Agreements ("**CPPAs**"), which sets out seven core principles which have been developed to ensure that corporate power procurement contributes to the achievement of Ireland's climate and renewable energy goals. These core principles include the reduction of greenhouse gas emissions, lower electricity costs, and the promotion of innovation in finding hybrid energy solutions. CPPAs are agreements under which business purchase electricity directly from generator and present an opportunity for companies to meet sustainability targets, help renewable projects and to hedge electricity price exposure. It is expected that the surge in CPPAs will continue throughout 2023 and 2024. To meet the demand for CPPAs, standard form documents should be developed to simplify the negotiation process involved.

Stranded Assets Working Group

- ESG commitments have encouraged companies to seek out so-called 'green space' for their operations. The demand for these spaces will increase significantly in the coming years with more companies being obliged by government policy or company mandates to conduct greener operations. As a result, the market will become oversupplied with stranded so-called 'brown-spaces'. There is a substantial opportunity for investors to rescue these stranded assets by retrofitting and bringing them into the green market but this investment will need to be incentivised to justify the capital expenditure. The establishment of a working group comprised of a collaborative team of finance, real estate, engineering and construction professionals is encouraged to proactively consider viable solutions for these already or soon-to-be stranded assets.

Blue Bonds

- The World Bank defines blue bonds "as a debt instrument issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits." Blue bonds are an innovative sustainability-focused financial product dedicated to ocean-conservation, marine and fishery projects. They present an opportunity for governments to access private capital and use funds to protect and conserve their water's habitats. The first sovereign blue bond was issued in October 2018 by the Republic of Seychelles and since then their popularity has increased significantly (with issuances by the World Bank and the Bank of China, amongst others) as awareness grows about the need to protect the world's oceans and address the impacts of climate change.

- Ireland has an opportunity to position itself at the centre of this growing segment of the industry through its role as the jurisdiction of choice for European special purpose vehicles. For example Credit Suisse has recently chosen Ireland as the jurisdiction in which to base a number of SPVs involved in blue bond transactions, including the US$656 million Galápagos marine conservation-linked bond, arranged and structured by Credit Suisse. The bond was used to finance a debt conversion for Ecuador exchanging US$1.628 billion of Ecuador's international bonds for a US$656 million loan. The U.S. International Development Finance Corporation (DFC), provided US$656 million in political risk insurance for the loan, while Inter-American Development Bank (IDB) provided a US$85 million guarantee. The debt conversion will generate an estimated US$323 million for marine conservation in the Galápagos Islands over 18.5 years, including funding to capitalise an ongoing endowment for the Galapagos Life Fund (GLF). Ongoing investment in the Irish financial services sector, together with Ireland's reputation as a leader in marine conservation, fisheries and offshore renewable energy, should be leveraged to position Ireland as the jurisdiction of choice for international blue bond transactions.

Lender Capital Requirements

- Generally, under the terms of Green and Sustainability Linked Loans or "Green Bonds" each lender is required to deploy the proceeds of those "Green Bonds" towards green / sustainable projects. Currently, lenders in the Irish market are incentivised to make these Green Bonds available to borrowers, as lenders have been able to raise money for these loans at a competitive price in the international capital markets. Lenders in the Irish markets have, therefore, been keen to deploy these funds. If lenders were to receive preferred capital treatment in respect of Green and Sustainability Linked Loans, this would further enhance the provision of green / sustainable finance. There has been discussion around increasing capital requirements for so called "dirty loans". However, such an approach could have the potential to crowd out so called "clean lending". Even at capital requirements of 100%, lenders may find "dirty loans" financially profitable where they are sufficiently well capitalised.[1] For that reason, the preferred approach might be to seek to reduce capital requirements for "clean loans" and retain existing capital requirements for "dirty loans". We recommend engagement at an EU level to seek reduced capital requirements for Green and Sustainability Linked Loans.

Combatting Greenwashing

- On 22 March 2023, the EU published a proposal for a Green Claim Directive to combat greenwashing and false environmental claims made by businesses in respect of their product offering. Under the proposal, any explicit environmental claims will have to be based on an assessment underpinned by scientific evidence. The assessment will also have to consider, amongst other factors, the claim over the lifecycle of the product and whether any positive achievement will result in a significant worsening of another impact. A Green Claim Directive is a welcome complement to existing consumer and unfair commercial practices legislation at EU and national level. While it is still in its early stages, with the normal ordinary legislative process expected to run until the last quarter of 2024, businesses are encouraged to proactively assess and report on the environmental impact of their products in line with the Green Claim Directive proposal to instil greater consumer confidence and trust in green marketed products.

- There are ongoing concerns that complex debt securities are being marketed inappropriately to retail investors, using promised high yields and, increasingly, ESG claims to entice investment. The significant loss to Irish investors in a recent debt securities funded waste-to-energy plant project in the UK has led to calls for greater transparency and regulation over how funds invested in ESG projects can be used. This case concerned intra-company loans made with investor funds following delays and increased costs involved in the intended waste-to-energy plan project which subsequently was cancelled due to an assessment that it was unviable.

1. See Green Capital Requirements 25 February 2023 available at https://www.bankingsupervision.europa.eu/press/conferences/shared/pdf/20230502_research_conference/Oehmke_paper.pdf

- In the UK, similar debt security investments were often marketed to retail investors without the standard investor protections offered by the Prospectus Regulation and MiFID regime by designing the debt securities to be non-transferable securities (as most financial markets regulation applies only to transferable securities). These non-transferable retail offered debt securities were colloquially known as "mini-bonds". Following large scale retail investor losses in a number of high-profile mini-bond schemes, the Financial Conduct Authority in the UK intervened to prohibit the marketing of mini-bonds to consumers, unless they are sophisticated or have a high net worth. As part of the post-Brexit reform of the financial services sector, the UK is also planning to apply the same securities offering regulations to non-transferable securities as apply to transferable securities. Should similar investor protection issues be identified in Ireland, particularly in the context of using ESG claims to market to retail investors, it would be worth considering whether reforms similar to those in the UK should be introduced.

9 For the NBFI sector, those investment funds providing credit intermediation, what are the key opportunities for the sector in the medium- to long-term and how can they be delivered?

Ireland was the first EU jurisdiction to provide a specific dedicated loan-origination regime. In order for Irish funds to remain viable options in credit intermediation, Ireland must ensure that this regime is now fully aligned with the new EU-wide framework to be introduced under the revised AIFMD. Any restrictions on L-QIAIFs in Ireland (eg, investment strategy limitations and leverage limitations) that diverge from the new AIFMD framework must be removed so as to align with the EU framework and ensure that Ireland is not at a severe competitive disadvantage.

Section 3: The regulatory and supervisory framework

10 How important is an effective regulatory framework for Ireland to maintain its status as a leading funds domicile?

Transparency and certainty in relation to regulatory requirements remains critical for fund managers in choosing a fund domicile and in effectively implementing their strategy.

Ireland has been successful over many years in establishing a leading regulatory framework for investment funds. The roles of the Department of Finance and the Central Bank are hugely important in this respect. However, we believe it is increasingly important for the sector to ensure that the Irish regulatory framework is more responsive, and more quickly responsive, to international developments and competitor jurisdiction developments. The efficiency and transparency of the Irish regulatory regime are key factors for investors and asset managers considering investing in or distributing investment funds in and from Ireland.

We submit that maintaining, and strengthening, an effective but agile regulatory framework is critical to Ireland's investment funds industry, and the employment it brings to Ireland. In order to ensure the agility and responsiveness of the regulatory framework, significantly increased resources will need to be allocated to the Department of Finance and the Central Bank.

11 **Taking account of the European and international aspect of the Irish framework and key EU files such as Capital Markets Union (CMU) and the Retail Investment Strategy, what improvements could be made to the legislative, regulatory and supervisory framework?**

The growth and expansion of the investment funds industry will be essential to achieve the objectives of the CMU. Due to the fact that, to a significant degree, the Irish legal and regulatory framework is dictated by EU measures, there is limited scope from a legal and regulatory point of view, for Ireland to devise a framework that differs from what is prescribed at EU level. Gold-plating, ie, imposing additional legal requirements to supplement the framework established at EU level, would present challenges to financial market participants who operate on a cross-border basis and is not considered to be a practical or efficient approach to the sector. Divergences in approach at national level create operational and compliance challenges for these FMPs. However, Ireland can take steps to ensure that regulators and officials have a seat in international and EU fora to ensure that we have an opportunity to input on and shape the legislative, regulatory and supervisory framework. Potential improvements to the framework would include:

- improving disclosures for investors – existing disclosure requirements, for example the mandatory disclosure templates under the SFDR, do not provide easily comprehensible, comparable information for investors in a format with which they are accustomed to interacting. Similar considerations apply to the PRIIPs KID. Digital innovations can assist in providing accessible, easily comprehensible information on investments to investors;

- review of the AIFMD – in light of the introduction of a harmonised pan-EU framework for loan origination funds in the revised AIFMD, amendments should be made to the Irish regulatory and supervisory framework in order to align the domestic regulatory framework with the EU rules. We support the proposed amendments set out in the Irish Funds' response to the Consultation in this regard.

12 **What elements of EU policy, including CMU policy, are most relevant to the growth and development of the funds and asset management sector in Ireland and why?**

We welcome the EU's CMU action plan and measures to support its three main objectives of: supporting a green, inclusive and resilient economic recovery; making the EU an even safer place to save and invest long-term; and integrating national capital markets into a genuine single market. An important element of creating a single market is ensuring supervisory convergence and that EU rules are consistently implemented throughout the EU to avoid regulatory arbitrage. The vast majority of fund managers operate on a cross border basis, so divergences between EU members states create operational challenges.

The revisions to the ELTIF regime are a significant development and managers are already showing growing interest in using the framework in advance of the changes becoming effective in January 2024. We therefore welcome the Central Bank's commitment to include an ELTIF chapter in the AIF Rulebook and to allow ELTIFs to be authorised as a standalone product. We believe that the ELTIF can play an important role in promoting sustainable investment products and in meeting investor demand for alternative assets.

See also our response to Question 44 below in relation to the role of Irish SPVs in fulfilling the policy objectives of CMU.

13 What peer jurisdictions, most notably from other EU jurisdictions are most relevant? Outline the reasons why.

The five largest fund domiciles in the Europe are Luxembourg, Ireland, Germany, France and the UK. Ireland and Luxembourg have a number of shared features, including the long standing and respected reputation of each jurisdiction as a fund location and a global recognition of experience and expertise in establishing and servicing the widest range of funds. Frequently, when international fund managers are considering launching their first funds in Europe, they will consider whether to domicile in Ireland or Luxembourg in the first instance.

Luxembourg has, in recent years, been particularly successful at attracting private equity funds and private credit and loan-origination funds to Luxembourg. This is a significant consideration in relation to attracting green financial products, which often take the form of private equity funds. If Ireland fails to attract private equity funds, it will lose out on a significant opportunity in its aim to become a centre of excellence for sustainable finance. One factor which has been a particular driver of the success of the Luxembourg industry in the area of alternative assets and private credit in the last 5-8 years has been the availability of indirectly regulated fund structures (such as the Société en Commandite Spéciae or "**SCSp**" and the Reserved Alternative Investment Fund "**RAIF**"), which are not directly regulated by the CSSF but which will have a regulated AIFM and be subject to AIFMD by virtue of the provisions which impose obligations upon any products managed such AIFMs). The existence of those entities and the ability to choose between regulated and indirectly regulated structures meant that a number of global asset managers elected to domicile their ranges and invest in Luxembourg at a time when Ireland was finalising its ILP legislation and focussed largely on regulated fund options. We have discussed further in section 15 below the argument to enhance the range of options, including indirectly regulated AIFs in Ireland.

14 How does the funds framework in Ireland compare to those other jurisdictions?

Deficits in Ireland's Offering

- Our key competitor jurisdiction, Luxembourg, offers an indirectly regulated RAIF vehicle, which has attracted a very significant amount of growth in the market over the last 10 years. We submit that Ireland should establish a comparable indirectly regulated AIF vehicle. This could be primarily based on a limited partnership vehicle which is an AIF, but not directly regulated. This is a very important missing piece of Ireland's funds offering at present. Limited partnerships governed by the 1907 Act can be used in this regard, but do not currently have the flexibility and modern legal features to attract a significant portion of this business.

Expertise and Innovation

- Both Ireland and Luxembourg have significant experience and expertise in establishing the widest possible range of international funds. However, Ireland has developed a strong reputation for the efficient and effective servicing of ETFs, money market funds and alternative investment funds. Ireland currently accounts for more than 68% of the total European ETF market, with assets under management ("**AUM**") rising above €1 trillion for the first time in June 2023, and 43% of European money market funds. Luxembourg is the next largest domicile for ETFs, with $295 billion in AUM.

- Ireland was the first European jurisdiction to offer a regulated alternative investment fund product, the Irish Qualifying Investor Alternative Investment Fund ("**QIAIF**"), in 1990. In the intervening period, Irish service providers and the Central Bank have worked to develop solutions to allow the effective and practical implementation of alternative investment strategies in a regulated structure. This has meant that Ireland maintains a distinct advantage as a jurisdiction for UCITS intending to pursue alternative investment strategies.

- Ireland is the largest hedge fund administration centre in the world and, accordingly, has significant experience in servicing alternative investment structures.

- Euronext Dublin is the largest exchange globally for investment fund listings.

Sophisticated Regulation

- The Central Bank's regulatory focus is on robust and effective regulation, facilitating market and product development, while protecting investor interests. The Central Bank is willing to engage in direct discussion with industry members and fund promoters in relation to unique or new proposals surrounding funds which are consistent with the above principles of regulation. This approach regularly extends to face-to-face meetings to discuss new fund structures and practical solutions to challenges faced by the industry.

International Recognition

- Ireland was the only international fund centre to be included on the Organisation for Economic Coordination and Development ("**OECD**") 'white list' of jurisdictions deemed to have implemented OECD standards for transparency and exchange of information when published in April 2009.

- Ireland has signed bilateral Memoranda of Understanding ("**MoU**") with more than 40 countries, including China, Dubai, Hong Kong, Isle of Man, Jersey, Malaysia, South Africa, Switzerland, Taiwan, UAE and the USA.

Tax

- The Irish 'investment undertaking' tax regime is performing relatively well, in comparison to competitor jurisdictions. However, some administrative changes to the regime could materially reduce costs and operational issues without damaging the integrity of the regime. We have set out further details below.

Service Culture

- Ireland is ranked as the third most competitive country in the euro area and the 11th most competitive economy in the world in the IMD Competitiveness Yearbook 2022.

- Ireland has a deep talent pool, being ranked first in the EU and fourth globally with the highest proportion of 25-34 year olds with a third level qualification (Department of Education and Skills Education at a Glance OECD Indicators 2019).

15 Are there any updates or changes needed to the current legislation governing the legislative structures used to establish investment funds?

Further Enhancements to the ILP

While the enhancements to the ILP regime introduced by the Investment Limited Partnership (Amendment) Act 2020 were most welcome and significantly increased the attractiveness of this vehicle for fund managers, in particular managers of private equity, venture capital and "real economy" funds (such as property, infrastructure and renewable energy funds), further enhancements to the regime could be made to ensure Ireland's ongoing competitiveness and to build Ireland's reputation as a domicile for private equity funds. These improvements are addressed more comprehensively in the Irish Funds submission, but are summarised briefly below.

- **Accounting rules applicable to ILPs** – legislative clarity relating to the applicable accounting rules would be welcome.

- **Dividend Withholding Tax** - dividends paid by Irish companies to ILPs are subject to 25% dividend withholding tax ("**DWT**"). In contrast, other regulated collective undertakings such as ICAVs, unit trusts, investment companies and common contractual funds are exempt from DWT. The unavailability of a DWT exemption for ILPs is commonly highlighted as a reason not to use ILPs and Irish holding companies in private equity structures. We recommend that DWT exemptions should be broadened to include ILPs. This could be achieved quite easily by updating the definition of "collective investment undertaking" in section 172A of the Taxes Consolidation Act.

- **Reverse Hybrid Rules** – Ireland's reverse-hybrid rules include a safe harbour for certain collective investment schemes that are widely-held and which hold a "diversified portfolio". This is commonly referred to as the CIS exemption. There is a 24 month grace period to achieve diversification for the purposes of the CIS exemption where it would be reasonable to consider that requirement will be satisfied within 24 months and any failure to satisfy the requirement is temporary, inadvertent and unavoidable. There are a number of technical issues in applying the CIS exemption in practice which should be clarified in legislation, including:

    - that the definition of "diversified portfolio of assets" is amended, because practice has shown clearly that the 10% maximum threshold per investment is generally not attainable in private equity funds (it is normal for private equity funds to hold some portfolio companies that are worth significantly more than 10% of the overall investment portfolio). We would suggest that amendments should be made to this, perhaps following the approach taken with respect to real estate investments (at least three assets, none of which is worth over 40% of the total market value of the assets held);

    - that the 'diversified' requirement is clarified so that it is clear that the test can be considered both <u>directly and indirectly</u> and that intermediate asset holding companies (such as investment holding companies and ICAVs) can be 'looked-through', so that an ILP may be considered to be 'diversified' if it holds a diversified portfolio directly or indirectly through one or more other entities. This is clarified to some degree in guidance notes but should be made expressly clear in legislation;

- that the requirement for failure to diversify to be '*temporary, inadvertent and unavoidable*' be removed and that an ILP simply be treated as diversified over the 24 month period where there is an intention to satisfy that requirement by the end of that period. The requirements of '*temporary, inadvertent and unavoidable*' appear to be cumulative requirements and arguably impose a high legal threshold. An ILP may not ultimately satisfy the relevant test because of market conditions (eg, asset availability, asset pricing or lack of financing). These reasons not be temporary, inadvertent or unavoidable. For example, high asset pricing does not arise because of 'inadvertence' and the problem could be avoided by overpaying for assets (so it is not 'unavoidable');

- that legislation should positively confirm that an ILP which intends to be diversified will only be taxed prospectively as a reverse hybrid entity at the expiry of the relevant 24 months period if is subsequently fails that requirement (and will not be retrospectively taxed); and

- that an ILP continues to be treated as diversified for a period of three years from when it begins to wind-down. Legislation currently envisages a 12 month winding-down period and is arguably too short, particularly in cases where assets may have become illiquid or distressed since original investment. A period of three years would seem more appropriate.

Ensuring that Ireland is ELTIF-Ready

We welcome the recent announcement from the Central Bank that it would include a separate chapter on ELTIFs in the AIF Rulebook, allowing ELTIFs to be established as standalone product. We are, however, in the very early stages of accommodating the ELTIF in Ireland and swift action will be required to reassure promoters and investors that the Irish regime is ready to authorise ELTIFs in advance of the January 2024 application date, particularly as other jurisdictions have already taken steps to ensure that their frameworks can accommodate ELTIFs and indeed have already authorised ELTIFs.

Indirectly Regulated AIFs

Other jurisdictions include indirectly regulated AIFs in the suite of legal structures available to managers and investors. The use of indirectly regulated structures, particularly by managers with private investment strategies, is already a proven growth area and Ireland is currently at a material competitive disadvantage compared to other jurisdictions. Such AIFs, while not being regulated at vehicle level and therefore not requiring authorisation by the Central Bank, are regulated at management level, as they are required to have an authorised AIFM. Investors in private asset strategies are typically sophisticated, experienced investors capable of carrying out extensive due diligence and with robust risk management processes and so are comfortable with investing in an indirectly regulated structure, which is subject to regulation at management level. While there are indirectly regulated fund structures in Ireland (1907 limited partnerships), there are a number of legal features of these structures that make them unattractive to and / or unsuitable for many fund managers; these features are set out in detail in the Irish Funds' response to the Consultation Paper, to which we have contributed. We support the proposal in the Irish Funds' response to legislate for an indirectly regulated vehicle regime wherein the existing regulated legal structures can be used in an indirectly regulated form and / or the creation of a new limited partnership structure largely based on the existing 1907 Limited Partnership Act.

Legislation to address winding up of funds with orphaned assets

The development of a legislative regime to facilitate the transfer of orphaned assets associated with investors who can no longer be traced where a fund is being terminated would provide legislative certainty and clarity in relation to the process for terminating funds.

16 **How do the Irish legal structures compare to the vehicles available in other jurisdictions?**

See our answer to question 15, where we underline the importance of further enhancements to the ILP, ensuring that Ireland is ELTIF-ready and providing for indirectly regulated AIF structures.

17 **Are there investment or financing vehicles that are currently unregulated but that should be regulated in the future? If your answer is yes, please explain how these entities should be regulated and the rationale for doing so.**

No.

18 **Unregulated vehicles are not subject to the same restrictions, requirements and reporting obligations as regulated ones. Does this pose a risk to investors or to the wider financial system?**

While there are risks in investing in an indirectly regulated structure (as there are risks with all investments), as pointed out in our response to question 15, investors in private asset strategies are, in practice, sophisticated, experienced investors capable of carrying out extensive due diligence and with robust risk management processes in place and so are comfortable with investing in an indirectly regulated structure, which is subject to regulation at management level through AIFMD. While the structures themselves may be indirectly regulated, broader financial services regulation will impact the investments, such as, for example, the EU's Markets in Crypto-assets Regulation and the EU's Digital Services Act, mitigating the risks involved.

Section 4: Assessing the impact of the funds sector

19 **Where relevant, detail how your organisation, or the wider sector, contributes to the economy with particular reference to employment, revenues and regional development.**

Matheson is just one of a large number of service providers that support and contribute to the success of the funds industry in Ireland. Our dedicated asset management and investment funds team is comprised of over 70 legal professionals, led by 14 partners, with offices in Cork and Dublin. We act on behalf of clients representing approximately 25% by net asset value of all Irish domiciled funds as at 30 June 2022. We act for the world's leading institutional fund managers including 7 of the top 10 US asset managers and the world's 5 largest asset managers.

Our asset management and investment funds team works alongside a number of other departments in advising and supporting our fund manager clients, including our Tax Department (significantly the largest tax group amongst Irish law firms with over 40 lawyers and tax advisers and 19 partners and tax principals), our Finance and Capital Markets Department (consisting of more than 50 lawyers led by 19 partners) and the Financial Institutions Group (consisting of 30 lawyers led by 8 partners) within our Corporate Department. In addition, our Financial Administration Services and Compliance team has a proven track record in providing a comprehensive company secretarial and company law compliance service to financial services institutions, including investment funds.

20 **What role can the sector play in deepening Ireland's capital markets and, in particular, supporting retail investors access to investment opportunities and domestic SME's access to finance? What measures can be taken or supported (if underway) to meet this objective?**

Not answered.

21 **What role can the sector play in meeting wider Government policy objectives in areas such as investment in domestic enterprises and infrastructure? What measures can be taken or supported (if underway) to meet these objectives?**

Not answered.

22 **What role can the sector play in meeting wider Government policy objectives in areas such as pensions and long-term savings? What measures can be taken or supported (if underway) to meet these objectives?**

Stimulating sustainable investment

Pension funds are likely to focus on sustainable investment in the future. Ireland's tax policy could further support Ireland's pension industry with the objective or permitting both increased investment in pensions by our workforce and use of pension capital for sustainable investment purposes. Ireland currently caps the amount of tax deductions that an employee may claim for pension contributions to a percentage of maximum earnings of €115,000 (which increases with an employee's age). For example, the maximum amount that a person aged between 30 and 39 years could potentially apply for tax relief is €23,000 per year, which would appear to be relatively low given Ireland's projected demographic in the medium-term and its pension funding requirements. Ireland could consider its approach to pensions and consider increasing tax relief (or the rate at which it is granted) for additional voluntary contributions which a pension fund proposes to apply for sustainable investment. For example, an employee could be permitted an additional tax deductible contribution of, say, up to €50,000 every five years if the pension fund in question complied with standards equivalent to Article 8 or Article 9 funds. This would promote increased pension investment and deployment of that capital in sustainable investment.

Financial Literacy

Improving financial literacy is a key element in encouraging individuals to consider broader investment opportunities beyond the use of deposit savings accounts, which has been the default means of long term saving / investment in Ireland to date. Many potential investors are unaware of how funds operate and how to access investment funds and this lack of knowledge can lead to uncertainty and an element of distrust and misunderstanding. In this regard, we welcome initiatives such as the Irish Funds Pilot: Transition Year Financial Literacy Programme and would encourage similar initiatives at secondary and third level to improve financial literacy generally. These initiatives would be separate but complementary to educational initiatives to promote the development of a skilled talent pool in areas such as ESG, Fintech and investment funds more generally to support the continued growth of the sector.

Building our Talent Pool

There needs to be a continued focus on ensuring that there is a deep pool of skilled, experienced talent to support the Irish funds industry. This should include initiatives to attract skilled, experienced professionals to work in Ireland as well as upskilling within the industry. Further consideration should be given to how investment funds programmes can be promoted and incorporated in third level and higher level learning so that there is a strong talent pipeline to support the growth of the industry in the future.

23 **What role does the sector play in supporting investment in the economy and the savings needs of investors in the EU, and outside the EU where relevant?**

Promoting Irish Retail Investor Engagement with Industry

To support the objectives of the EU's Retail Investment Strategy and to support long term investments and pension planning by Irish citizens, further consideration needs to be given to the tax treatment of Irish resident investors and financial literacy initiatives are required to ensure that Irish investors are aware of the opportunities presented by investment funds and how to access those opportunities.

Section 5: Taxation of investment products

24 **For an Irish investor, as set out above, tax legislation separately classes investments as:**

(a) Irish bank accounts

(b) EU/EEA bank accounts

(c) Other bank accounts

(d) Dividends from companies

(e) Capital gains on the sale of shares in companies

(f) Irish life products (new basis)

(g) Irish life products (old basis)

(h) Foreign life products

(i) Irish funds

(j) EU/EEA/OECD equivalent funds

(k) EU/EEA/OECD non-equivalent funds

(l) Other distributing funds

(m) Other non-distributing funds

(n) Personal Portfolio Investment products

Taking account of the different nature of the investment products, is this an appropriate way to class investments for the purposes of taxing the returns on those investments? Does the differing tax treatment of different investments drive investor behaviour, and if so how? Do you propose an alternative method / methods of classifying investment products?

Not answered.

25 **The return on certain investments is taxed through the operation of a withholding tax at source, while others must be self-assessed by the investor. In either case, the tax may be a final liability tax, or it may be an amount against which reliefs and credits are allowed.**

(a) **Is it desirable that, where possible, taxes are:**

(i) **deducted at source; and**

(ii) **final liability taxes? Or**

(b) **Is it desirable that:**

(i) **taxes are self-assessed; and**

(ii) **taxed at a marginal rate with reliefs and credits available against investment returns, meaning taxpayers would have to file a tax return each year.**

Do the answers to a) and b) differ for different types of investment product or different types of taxpayer?

Not answered.

26 **If any investment returns continue to be taxed on a final liability basis what link, if any, should there be between the rate of DIRT and the rate of tax applied to other investment products? Should consideration be given to reintroducing a "non-standard" rate to any products?**

Not answered.

27 **Are there places where the taxation of investment income and gains need to be simplified or modernised? For example in relation to the taxation of ETFs, the old basis of taxation for life products, or harmonising the exemptions from IUT and LAET.**

There are four specific areas where we believe simplification would improve Ireland's offering. These are as follows:

(a) **Simplify IUT declaration regime:** The IUT declaration regime should be reformed. Investment funds should be entitled to rely on information acquired under KYC, FATCA and CRS to satisfy the 'non-resident' requirement in relation to IUT. Exempt Irish investors should be entitled to indicate their exempt status on the face of the subscription agreement (ie, by ticking a box). In all cases, electronic information should be acceptable and the requirement for investors to provide (and funds to hold) original forms should be dispensed with. This is an antiquated practice.

(b) **Remove eight year deemed disposal:** The eight year deemed disposal for units in Irish funds should be removed. This requirement prejudices investors making long term investments (including, for example, sustainable investments such as ELTIFs and ESG funds) and often forces investment funds to liquidate a portion of their assets in order to meet the charge. This provision was introduced at a time when the tax rate for income from investment funds was significantly lower than marginal rates and the rules are no longer justifiable given the income tax rate applicable to fund products.

(c) **Remove PPIU rules:** The specific rules regarding personal portfolio investment undertakings (PPIUs) should be removed. The tax rates imposed in relation to PPIUs (up to 80%) are effectively penal on impacted investors and do not seem justifiable given the income tax rate applicable to fund products compared to existing marginal rates.

(d) **Tax treatment of ETFs:** The tax treatment of ETFs is a subject of continuing uncertainty for many Irish taxpayers who are looking to make investments in ETFs. Historically, the Revenue Commissioners had published guidance indicating that ETFs resident in the US, EEA or OECD Member States with which Ireland has a tax treaty would generally follow CGT treatment. Since that guidance has been withdrawn, it has been very difficult for Irish taxpayers to apply the 'equivalence' test mandated by the Offshore Fund rules, resulting in taxpayers undoubtedly taking differing positions on the same ETFs, given the analysis now to be done involves some degree of subjective categorisation. This uncertainty illustrates the broader concern regarding the complexity, and lack of clear blackline tests, in ascertaining the tax treatment of non-Irish funds. This uncertainty must be clarified by legislation or more detailed guidance from Irish Revenue.

28 **Given the differences in the data reported to the Revenue Commissioners under international reporting standards when compared to domestic reporting obligations, should additional reporting be introduced to, for example, facilitate the pre-population of tax returns where tax liabilities are to be self-assessed?**

We recommend that the current funds reporting requirements are replaced with a simple pro-forma report for Irish investors, and that investment funds can use information reported under FATCA and CRS for non-Irish investors. There should not be any requirement for additional reporting given the current level of reporting made by taxpayers under various regimes, which can be confusing for both taxpayers and fund administrators.

29 **Where investments in investment undertakings, life policies or offshore funds give rise to a loss, no relief is available against other income. Where an individual has a gain on one such product and a loss on others, that loss may not be offset against the gain on a similar product. Is it desirable that loss relief, or a limited form of loss relief, be introduced for investments in these products? Note that reliefs cannot be given where the tax is a final liability tax deducted at source.**

We would recommend that the specified Irish income tax regimes which apply to products referred to in question 24 should include specific provisions whereby losses arising from such products may be used to set-off income and gains arising on such products on a ring-fenced basis.

30 **Are there differences within the regimes (e.g. in relation to who can make a declaration under LAET compared to those who may make a declaration under IUT) which should be addressed?**

Not answered.

31 **How should derivative products which mirror the performance of regulated investment products be taxed? Should they be taxed at the same rate as the investment product they mirror or should they be taxed under first principles?**

We submit that significant complexity would be required in any rules that sought to link the taxation treatment of a derivative to the treatment of the underlying asset. For example, where there was a portfolio of different underlying assets, it would be challenging to clearly define the treatment that should apply to the derivative. Most derivatives that are encountered by Irish retail investors are in the form of contracts for difference, certificates or warrants and we would observe that, in general, those products should generally give rise to capital gains tax treatment under general principles. Whilst there is a logic in linking derivative tax treatment with underlying tax treatment, there is perhaps a stronger case that the taxation of derivatives under the general principles of taxation ensures less complexity in the tax laws.

32 **Are any additional anti-avoidance rules required for any of the measures suggested in answer to previous questions?**

Not answered.

Section 6: The role of the REIT and IREF regimes in the Irish property market

33 **Are there aspects of the way in which property funds are taxed, or defined, that could be aligned with other existing standards, for example, the recent changes in the Central Bank of Ireland's macro prudential measures for property funds?**

The IREF rules are unnecessarily complicated and cumbersome and a number of significant changes are required to remedy this. In particular, we would make the following two recommendations:

(a) first, the leverage restriction rules for IREFs should be either removed in their entirety or streamlined with the Central Bank of Ireland's macro prudential measures for property funds; and

(b) second, if current rules are to be retained, amendments should be made to sections 739LC(2) and (3) of the Taxes Consolidation Act to ensure that *bona fide* third party debt from financial institutions is treated as 'third-party debt' in cases where an IREF has acquired properties from connected parties which initially acquired those properties in contemplation of the IREF business and the refinancing of those properties by third party financial institutions.

34 **IREFs invest in property of all descriptions, as developers, financiers and landlords. Do IREFs, and the regime as it is currently designed, support investment in housing policy objectives?**

Not answered.

35 **How does the IREF regime compare to property fund regimes in other comparable EU jurisdictions?**

Not answered.

36 **Are there aspects of the IREF regime that are not operating as intended or that are acting as an impediment to investment?**

Not answered.

37 **We invite comment in relation to the tax position of IREFs, in particular in relation to the following:**

- **The tax rate applicable to both resident and non-resident investors**
- **The tax exemptions that apply to certain categories of investors**
- **The tax rate applicable at the level of the fund**
- **The overall tax treatment of IREFS – should an alternative mechanism be considered**

Not answered.

38 **REITs invest in property as landlords and as developers of property to hold for rent. Do REITs, and the regime as it is currently designed, support investment in housing policy objectives?**

Not answered.

39 **While REITs are a structure used in many jurisdictions for collective investment in property, Ireland now has only one remaining REIT. Are there aspects of the REIT regime that are not operating as intended or that are acting as an impediment to investment?**

Not answered.

40 **How does Ireland's REIT regime compare to REIT regimes in other jurisdictions?**

Not answered.

41 **We invite comment on the tax position in relation to REITs, in particular in relation to the following:**

- **The standard REIT structure, common internationally, of exemption for qualifying property profits within the REIT subject to a range of conditions including a requirement that a high proportion of the profits (85 per cent in Ireland) be distributed annually for taxation at the level of the shareholder**
- **The tax exemptions that apply to certain categories of investors**
- **The tax rate applicable at the level of the REIT**

Not answered.

42 **Should the IREF and REIT regime continue to exist in tandem?**

Yes, the IREF and REIT regime should continue to exist in tandem and should not be merged. It is important to highlight that both investment products are very different. REITs are investment vehicles which are quoted on and public traded on a stock exchange. They have very specific investment criteria and operational parameters and their rules prevent concentrated shareholding arrangements. IREFs are regulated investment funds which are not publicly traded and cater for a different investor base.

43 **Is there an appetite for retail investors to invest in property, if so, what is the best type of vehicle to accommodate such investment?**

Not answered.

Section 7: The role of the Section 110 regime

44 **What policy objectives should section 110 be supporting?**

A key policy objective for the section 110 regime should be to facilitate an open financial services system that allows capital to flow from asset to investor without an intermediate layer of taxation. The section 110 regime is key to ensuring that Ireland maintains a fully functioning international financial services centre, by providing a means of both securing finance and segregating risk for a number of industries in the financial services sector. To support these objectives, the section 110 regime should be made as flexible and user-friendly as possible. Supporting and further developing these industries should be a key policy objective for the section 110 regime. We have provided some information below as to the importance of the section 110 regime to different industries:

- **Securitisation:** The primary use for SPVs is in the context of securitisation transactions. Securitisation transactions increase the availability of credit and reduce the cost of funding thus bolstering capital markets. This in turn allows banks and non-bank lenders to engage in further lending to households, small and medium-sized enterprises ('SMEs') and others. It also provides banks and non-bank financial institutions with access to a source of market-based finance. Ireland's section 110 regime is relied on extensively by domestic and international banks to raise finance from capital markets to finance their banking businesses and is a critical component of fund strategies.

- **Aircraft leasing / asset finance:** SPVs are used in the asset finance sector (particularly in the context of aircraft leasing) as both asset holding entities and as lending entities. One of the key reasons for this is the ability for lenders to mitigate risk by creating a bankruptcy remote SPV. Again, the use of SPVs in asset finance transactions is key to supporting Ireland's aircraft leasing industry in which 8,543 jobs are supported.

- **Regulated funds:** The use of Irish SPVs in the context of Irish funds transactions is commonplace. SPVs can be used as asset-holding subsidiaries of investment funds to separate certain assets or risk profiles. In addition, Irish SPVs can be used as an aggregator vehicle for investors that are required or simply prefer to invest through debt securities. Indecon's 2020 economic impact assessment report of the Irish funds and asset management sector estimated that 34,357 full time equivalent ("**FTE**") jobs were supported (including direct, indirect, and induced employment), and the sector had an economy wide impact of approximately EUR 14.8 billion. The section 110 regime is of critical importance to the regulated funds sector, as Ireland does not otherwise have an asset holding company regime.

- **(Re)insurance:** SPVs are commonly used in insurance and reinsurance transactions to manage risk and provide access to capital. This directly supports Ireland's insurance and reinsurance industries (which supports an estimated 17,982 FTE jobs).

Transactions involving the Irish section 110 regime are typically international financial services transactions involving international banks, asset managers and institutional investors, whereby Irish SPVs facilitate the free movement of capital from lender and capital markets to borrowers engaged in business in the real economy. The section 110 regime allows lenders and capital market participants to manage legal and regulatory risk which would otherwise arise from lending to businesses in the real economy directly and ensures that this can be achieved without the imposition of material corporate taxes which would not have arisen had such transactions been effected directly (and not through an intermediate SPV) – thereby ensuring the economic features of commercial arrangements are not impacted. The SPV sector directly employs an estimated 2,012 FTE jobs and it is key to the success of Ireland's international financial services offering, which itself supports an estimated 56,000 jobs. Therefore, a key objective for the section 110 regime is to remain as flexible as possible to ensure it can support Ireland's offering as an international financial services centre.

Ireland's policy objective for the section 110 regime should be to promote it as a central pillar of Ireland's financial services sector legal infrastructure, to allow Ireland continue to promote itself as a leading domicile for international fund managers and their fund platforms, as well as for the other financial service industries it supports in Ireland (as we have mentioned above).

Ireland's policy should be to make the section 110 regime as straightforward, transparent, user-friendly and flexible as possible where it supports financial services activities. A key policy objective should be to simplify the tax code governing the section 110 regime and remove some of the complexity that has been introduced into the regime since 2011. Broader developments in EU tax law, in particular ATAD 1 and ATAD 2, have meant that some of the complexity introduced into the regime since 2011 is duplicative and should be removed (for example, the inclusion of EU tax exempt funds in the definition of 'specified person'). Furthermore, some of the formalities of the conditions in section 110 itself are, we submit, the cause of unnecessary and disproportionate difficulties for taxpayers. We have provided further details in our answer to question 45.

45 What changes are needed, if any, to ensure the section 110 regime meets those policy objectives?

In our view, there would be a number of helpful changes which could be made to support our proposed policy objectives for the section 110 regime. Our suggestions are discussed below:

The Legal Environment

We support the IDSA's call for the development of a "best in class" legal framework for SPVs through the development of a unique investment vehicle that will be internationally recognised and will support high quality European securitisation and other structured finance and investment transactions. This can be achieved by developing the current general legal and governance environment by adding provisions to provide additional legal certainty and efficiencies. These developments can be summarised as follows:

(a) Permitting the establishment of protected cells with variable capital features (as is the case currently with umbrella fund structures).

(b) Confirming the enforceability of limited recourse and non-petition provisions.

(c) Providing that no examiner or process adviser can be appointed to an SPV (as is the case currently with ICAVs).

(d) Providing that SPVs cannot claim sovereign immunity.

(e) Providing for a modified 'corporate benefit' test recognising that the business purpose of the SPV is to facilitate one or more securitisation or other structured finance transactions.

(f) An accelerated incorporation regime.

(g) The introduction of specific governance provisions for SPVs – minimum of two approved / qualified directors; quarterly board meetings; annual compliance statement; audited financial statements; balance sheet data to be reported to the CBI on a quarterly basis.

The Tax Environment

The tax rules applicable to Irish SPVs should be straightforward to apply without introducing risk into commercial transactions because of legislative or technical uncertainties. Our key suggestions to improve the section 110 regime's tax environment are as follows:

(a) **Notification:** A failure to notify the Revenue Commissioners of 'section 110' status within the prescribed eight-week time period should not disqualify an SPV from the section 110 regime (as is currently the case). Disqualification from the section 110 regime can have material commercial and reputational impacts on arrangers of international financial services transactions using Irish SPVs. Often, this administrative deficiency can be discovered after material amounts have been advanced by international banks to their clients through Irish SPVs and after security and other banking arrangements have been put in place in respect of assets. These arrangements are not easily unwound and doing so is expensive – and, more importantly, entails damage to Ireland's reputation as a jurisdiction with reasonable and proportionate tax laws. In almost all cases, a failure to satisfy the eight-week time period arises solely from human error. There is no legislative ability to rectify the deficiency and the consequences (disqualification from the section 110 regime) amounts to a disproportionate penalty on the Irish SPV and all participants in its transaction. We would recommend that:

(i) Irish SPVs may notify up to the filing of their first Irish corporation tax return (which was the original deadline); and

(ii) failing to make the notification should give rise to an administrative penalty and not disqualification from the section 110 regime.

(b) **EUR 10 million requirement:** An Irish SPV has a 'day one' requirement that it makes a EUR 10 million investment. Like the notification, there is no mechanism to cure any failure to satisfy this test. An Irish SPV can inadvertently breach this requirement – sometimes because of circumstances completely outside of its control. For example, it is not always possible to predict when bank wire payments and / or when financial transactions entered into in the market will settle. We have experience of Irish SPVs unexpectedly receiving cash or assets on dates other than on settlement dates agreed with market counterparties. This has proven problematic where an unexpected settlement (whether too early or too late) causes the Irish SPV to breach the EUR 10 million requirement. The same commercial and reputational issues arise as for the notification. In most cases, the EUR 10 million requirement is not problematic because international financial services transactions are generally much larger than this amount. However, we would recommend that the EUR 10 million condition is made more flexible and that there is a period of time during which an Irish SPV may satisfy this requirement (for example, by the end of its first accounting period). This would remove the operational stress and complexity in managing the closing of large international financial services transactions.

(c) **Interest deductibility:** The interest deductibility rules for the section 110 regime have now become too complicated, given the recent introduction of the ATAD 1 and ATAD 2 tax rules in addition to the pre-existing domestic Irish tax rules on interest deductibility. In particular, the rules relating to "specified persons" are difficult to navigate and often result in tax uncertainty in transactions. We have two main recommendations to simplify these rules:

(i) first, remove the "specified person" requirement insofar as it applies tax-exempt persons in the EU or tax treaty jurisdictions (section 110(4A)(b)(ii)). Many UK and EU pension funds invest in Irish SPVs and this legislative provision creates unnecessary uncertainty and prevents *bona fide* commercial transactions by such pension funds with no obvious policy reasons. Our financial services policy should acknowledge that tax-exempt persons should not be treated differently to other taxpayers when considering legislation targeting double non-taxation. This approach would be consistent with the EU's ATAD 2 anti-hybrid rules which are in force in Ireland – and the recent introduction of these rules mean that the "specified person" provisions are arguably no longer required; and

(ii) the concept of 'significant influence' should be aligned with the equivalent concept under Ireland's anti-hybrid rules (which are based on EU directives).

(d) **Foreign taxes:** An Irish SPV should be entitled to deduct foreign withholding taxes or reduce its taxable income by reference to them. The introduction of section 81(2)(p) of the Taxes Consolidation Act has caused, and continues to cause, material concerns for Irish SPVs that suffer foreign withholding taxes. This provision should be deleted insofar as it relates to the section 110 regime. The impact of this provision is that an Irish SPV (which only recognises a taxable margin) pays 25% Irish corporation tax on the amount of foreign tax which has been deducted. In other words, it pays tax on tax and cannot generally benefit from a tax credit to reflect the fact that there is double taxation. The impact of this taxation can materially distort commercial arrangements. It is clearly an unintended outcome of another policy objective and should be corrected.

- **Interest deductibility under Case III and Case IV:** Ireland's general interest deductibility rules for non-trading companies (ie, under Case III) are too narrow. For example, a company which borrows EUR 1 million at 3% interest and makes a EUR 1 million loan at 3% interest makes no profits from a commercial or financial reporting perspective. In this regard, the relevant company has interest income of EUR 30,000 and interest expense of EUR 30,000 (and therefore no commercial profits). However, if it is <u>not</u> carrying on a trade of lending (and is therefore taxed under Case III), it would recognise taxable profits of EUR 30,000 which would be taxable at 25%. The company therefore has a tax liability EUR 7,500 but no actual profits. We submit this outcome is not supportable or sustainable from a policy perspective. We would recommend a broadening of the general deductibility rules, for Case III in particular, to support lending, investment and treasury activities so that interest may always be deducted against interest and other financial income (regardless of what Case of Schedule D a taxpayer may be charged under). In our view, making these changes would remove the need for taxpayers to rely on the section 110 regime where normal taxation under Case III or (Case IV) would otherwise be the natural route.

Section 8: General

46 **In addition to the matters covered in this public consultation, are there other issues relevant to the Terms of Reference, which you wish to bring to the attention of the Department? Yes / No**

Yes

47 **If you have answered "yes", please provide a brief summary of those issues, providing any information or references to material that you consider relevant to the Terms of Reference and the Department's work.**

There are a number of other changes to the taxation of the funds sector that we feel should be made.

(a) **Problems in the market for Irish loans – Form CG50A:** There is an industry problem with respect to transfers of performing loans which are secured over Irish real estate. This issue is causing reputational damage to Ireland's financial services industry. In short, the Revenue Commissioners require the seller of such a loan to produce a Form CG50A or suffer a 15% withholding tax. The Form CG50A requirement is causing material practical issues and concerns for international participants that transact in Irish loans. This includes most of the world's largest investment banks. The practical problems generally include:

(i) There is a requirement for a Form CG50A on initial syndication of a new loan and secondary market trading of performing loans. This requirement is imposed notwithstanding the fact that no taxable gains arise and no capital gains tax is ever collected as a result (because performing loans are generally bought and sold at, or close to, par). Quite often, the original lender or seller (usually a foreign international bank) may be unaware of the Form CG50A requirement and may only discover the issue when raised by a counterparty. This can prevent timely syndication of loans and result in material commercial and reputational issues for counterparties.

(ii) There is a requirement for non-Irish taxpayers to register for Irish tax to obtain a Form CG50A. This itself is an administrative procedure which can delay transactions in Irish loans. More problematically, many non-Irish taxpayers are reluctant (or restricted) from registering from taxes outside of their own jurisdiction. We have recent experience of this in cases where a foreign company had given bank covenants not to register for tax outside of its home jurisdiction and was unable to complete transactions due to the requirement to register for Irish tax.

(iii) The treatment of Irish loans in this way is wholly inconsistent with the international loan market. Ireland is the only jurisdiction we are aware of that seeks to tax loan transfers under capital gains tax principles and the policy makes no sense in the context of performing loans where there are no gains that could be taxable in any event.

We strongly recommend that the position is clarified that loans secured over Irish real estate are not within the charge to Irish capital gains tax (whether this is by way of legislative amendment or updated Revenue guidance).

(b) **EU funds:** Ireland provides domestic withholding tax exemptions to Irish regulated funds (for example, Irish regulated funds benefit from exemptions from DWT and interest withholding tax). These exemptions are not always automatically extended to other EU funds. This is arguably discriminatory and requires EU funds to seek refunds from the Revenue Commissioners. This is often a lengthy process and can be administratively burdensome. Ireland's tax rules should be updated to confirm that withholding tax exemptions applicable to Irish regulated funds should apply equally to equivalent EU funds.

(c) **Taxation of foreign currency:** Reforms should be made to the way the Irish tax system treats foreign exchange gains and losses. We would recommend that foreign currency should never be treated as an asset for CGT purposes where that currency reflects the functional currency of the taxpayer in question.

48 **This consultation is necessarily wide-ranging. As we would not be able to take forward all proposals immediately, what do you think the top 3 priority proposals should be for government implementation and why?**

1. A Holistic Approach to Sustainable Finance

Sustainable finance has implications across a number of government departments and would benefit from a holistic, multi-disciplinary, cross-governmental approach that exploits the opportunities and addresses the challenges presented by the EU sustainable finance agenda. This framework could include, for example, a coordinating body which would be tasked with setting national priorities to ensure capital is channelled into sustainable investments and to promote the development of sustainable financial products. This coordinating body would receive input from relevant government departments and regulators and in turn communicate national priorities to those entities and facilitate knowledge and skills sharing between them to ensure a holistic approach is adopted and that all stakeholders are fully informed of developments, challenges and opportunities in all relevant government departments / the regulator.

2. Indirectly Regulated Fund Vehicles

Provide for the necessary fund vehicles to ensure that Ireland can offer private equity fund managers the required legal infrastructure to operate in Ireland, including indirectly regulated AIF vehicles and a best-in-class ELTIF 2.0 vehicle.

3. Agility of Legislative and Regulatory Response

Ensure the maintenance of Ireland's competitiveness by establishing a "Funds and Asset Management Unit" within the Department of Finance to ensure that Ireland remains agile in quickly responding to developments in the international funds industry. In this regard, we support the proposal in the Irish Funds' response to this Consultation that an entity be established, perhaps a dedicated "Funds Unit" in the Department of Finance, that would be mandated to ensure the international competitiveness of the Irish funds industry.

Yours faithfully

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