

Ireland: The growth of the Irish fund administration business and the challenges that lay ahead.

Ireland has been subject to immense financial change over the past decade and a key area of growth has been the Asset Servicing community, which has also had its' own particular challenges since 2008. As the Fund Management Industry has changed through funds merging or closing, investment managers looking to expand into new markets, the relentless growth of regulation and the increasing emphasis on technology based solutions, the Irish Asset Servicing community has had to adapt to these challenges accordingly. In conjunction with this there has been significant deleveraging and risk reduction by investment managers and the historic providers of liquidity and financing, such as the prime brokers, have reduced their market exposure. Administrators have had to respond to this changing environment, develop more bespoke solutions for clients and provide more than just a fund accounting and shareholder service. The period since 2010 has also seen the rapid increase of onshore Irish regulated funds requiring administrators to adjust their accounting and NAV model to more frequent valuation periods and in many cases daily.

The most significant change is the structure of the Irish Fund administration Industry as a number of global banks have moved away from direct ownership of fund administration companies, e.g. Butterfield, Citibank, Credit Suisse and UBS among others. There have also been a number of banks acquiring administrators to enter the market for the first time with Sumitomo Mitsui Trust Bank (SMTB), Japan's largest Trust Bank and Asia's largest asset manager acquiring the Global Asset Services division from Daiwa Securities in 2012. Two of the objectives of this transaction were to continue SMTB's investments overseas but more significantly to provide an alternative fund administration solution to its client base. Consolidation among the smaller sub scale administrators and the larger administration companies in Ireland looks set to continue and there are forecasts that the number will further decrease from the 42 today to less than 20 over the next few years. There is an increasing trend for asset managers to place more reliance on their administrators in terms of providing data for reporting. This trend is requiring a significant investment in technology solutions across the spectrum which has led to some firms withdrawing from the business. In addition as markets still encounter bouts of nervousness, asset managers are closely monitoring the financial standing of their administrators as well as their commitment to stay in business for the long term.

One activity that has seen one of the most significant changes in the Irish Fund Administration Industry in recent times is the introduction of the Depositary, enshrined in both the AIFMD and UCITS V directives.

The arrival of UCITS V on 18 March 2016, which had been in discussion for a number of years, but only as recently as December 2015 has its true detail started to become apparent, is yet another challenge as this requires significant documentation and operational change.

The new UCITS V Depositary activity mirrors that of AIFMD and UCITS V incorporates three new areas of focus:

- Depositary services
- Remuneration
- Sanctions

UCITS V is impacting the Funds Industry in two principal ways - the role and liabilities of the Depositary and the impact of remuneration guidelines for the investment manager. Many of the

Irish Depositaries, including SuMi TRUST, already have the systems in place for AIFMD but the big difference under UCITS V is, because of its' origins as a retail structure, the requirement for the Depositary to have full liability for the loss of assets in custody with no offset to the sub custodian or investment manager as permitted under AIFMD. That means that Depositaries are assuming greater risk and need to have a very strong balance sheet and risk management framework in order to assume the additional risk on behalf of the UCITS funds they service .

SuMi TRUST, are being actively approached to support administrators who do not have a Depositary within their Group to assist them with the Depositary services for the AIFMD and UCITS funds they administer. SuMi TRUST now works with an increasing number of third party administrators to provide the Depositary model. This is expanding the SuMi TRUST footprint in Ireland and gaining recognition amongst investment managers globally, creating a series of high quality relationships. This in a sense proves the flexibility of the Irish Asset Servicing model with companies collaborating to provide a seamless service for fund managers.

Asset Service providers need to actively provide quasi consulting services to their clients and the Investment Management industry at large, wherever they are domiciled , to identify the optimum solutions for investment managers, whether under AIFMD or UCITS. This may also include advising on distribution. SMTB as the largest distributor of internal and third party investment funds in Japan, working with some of the leading global asset managers specialised in long only and alternative investing, has extensive experience of providing this advisory model and is actively doing so with its' clients.

Ireland has one primary competitor in Europe - Luxembourg, and between the two of them dominate the fund administration and asset servicing business, supporting managers from all over the global market. This competition provides for a healthy environment and requires the regulators in both jurisdictions to provide flexible solutions and support. Naturally they both undertake this in different ways. However, Ireland has actively marketed itself as a global centre with great success and in particular growing its relationship with the North American investment community and the UK. The recent introduction of the ICAV is proving a great success. The ICAV is a great example of the Irish industry and the legislature working together to create a legal framework tailored to meet the requirements of Irish funds whilst continuing to provide strong protection for investors. A key benefit of this new structure means that the establishment and amendment of funds structures/ provisions are now much more streamlined, focussed and efficient.

Ireland therefore looks set for ongoing growth and recognition as an innovative, forward looking, accommodating centre for global investment managers to domicile their investment funds and be supported by a well established administration and asset servicing centre, of which SuMi TRUST is one of the longest serving providers, a leader in innovation and an integrated part of this specialist community. We look forward to the future with confidence.

For more information on the full range of services provided by SuMi TRUST Global Asset Services please contact in Dublin:

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