

## The Investment Funds Industry in Ireland

**KB Associates** is a boutique consulting firm which assists asset managers address the operational issues associated with the establishment and ongoing management of offshore funds. KB Associates offers a range of advisory and project management services to asset managers of:

- Traditional Funds: (Equity, Fixed Income, Money Market, Exchange Traded Funds)
- Hedge Funds
- Funds of Hedge Funds
- Property Funds
- Private Equity Funds

### Background

The International Financial Services Centre (IFSC) was established in 1987 by the Irish Government as a tax efficient jurisdiction for investment funds. Regulated by the Irish Financial Services Regulatory Authority (IFSRA), with approximately \$1,934 billion<sup>1</sup> in net assets under management, Ireland is a prime location within the EU and OECD for the establishment of investment funds.

### Tax Efficient for Investors

Non-Irish resident investors in Irish domiciled funds are exempt from all Irish taxes including

- Income tax
- Withholding tax on dividends
- Withholding tax on interest
- Capital gains tax on the redemption of units/shares
- Stamp duty on the transfer of units/shares

Ireland currently has Double Taxation Treaties in force with 45 countries worldwide.

### Legal Structure of Irish Funds

A fund can be structured as:

- A unit trust
- An investment company with an appointed management company
- A self managed investment company
- An investment limited partnership
- A common contractual fund

Funds may be open or closed ended and established as single or multi fund vehicles (umbrella structure). Where an umbrella structure is utilised, each subfund has its own portfolio of assets. The subfunds operate with segregated liability such that assets within any subfund are protected from liabilities arising in other subfunds. Additionally there may be different share classes within a subfund. Each class will share a common pool of assets but may differ in currency, fees and minimum subscription amounts.

### Regulatory Categories of Irish Funds

IFSRA is the regulatory body for the authorisation of Irish funds. IFSRA authorises two main categories of funds:

- UCITS (Undertakings for Collective Investment in Transferable Securities) and
- Non-UCITS

**UCITS Funds** are regulated pursuant to EU legislation.

Once authorised by IFSRA the funds obtain EU passport status and can be marketed to the general public throughout other EU member states without further member state authorisation. UCITS must comply with certain investment restrictions and have limited borrowing policies. UCITS funds may include equity funds, fixed income funds, money market funds, exchange traded funds and funds of funds.

Many non-EU jurisdictions also look favourably on UCITS funds in determining whether or not a fund may be distributed locally. Many asset managers elect to utilise a UCITS fund as the platform for global distribution.

**Non-UCITS Funds** while authorised by IFSRA, do not have a similar EU passport. Non-UCITS are less restrictive in terms of investment and borrowing policies. Non-UCITS funds may be authorised by IFSRA as one of the following:

- Non-UCITS
- Professional Investor Fund (PIF), permitting limited derogations from investment and borrowing restrictions. Minimum initial subscription of €125,000 is required.
- Qualifying Investor Fund (QIF), providing maximum flexibility in terms of investment objectives and policies with no restrictions. Minimum initial subscription of €250,000 is required.

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Offshore Fund Consulting

Independence - Commitment - Expertise

Non-UCITS funds may include property funds, hedge funds, funds of hedge funds and private equity funds.

## Service Providers to Irish Funds

A fund will require the appointment of the following service providers:

- Two Irish resident directors
- A registered office in Ireland
- A money laundering reporting officer
- An administrator in Ireland
- A custodian/trustee in Ireland
- A legal advisor in Ireland
- An auditor in Ireland

## Authorisation Process for Irish Funds

The process involves two stages:

- The promoter and the investment manager must obtain approval from IFSRA. The promoter must have minimum net shareholder's funds of €635,000, or equivalent in another currency.
- The fund entity also requires approval. The fund's prospectus and statutory documentation in addition to contracts with service providers must be submitted to IFSRA for review and authorisation.

The application process for both stages can be run in tandem with IFSRA, typically taking between 4 to 6 weeks to complete before a fund's launch date.

**An exception to this is the QIF fund. Where the promoter and investment manager have been previously approved, a QIF can be authorised by IFSRA within 24 hours of the filing of the documentation.**

## Costs

Depending on the structure and complexity of the fund, the principal costs involved are:

On establishment

- Legal fees €40k\*

Recurring

- Company Secretary fees €8k p.a.\*
- Audit fees €15k p.a.\*
- Directors fees €15k p.a.\*

- IFSRA levy €3k p.a.\*
- Administration & Custody fees – will vary according to the legal structure of the fund, the volume of assets under management, asset types, dealing and NAV valuation frequency.

**KB Associates** provides a complete range of support and service solutions to establish funds in Ireland.

## On Establishment KB Associates Assists with:

- Project Management of the Fund Set Up
- Administrator & Custodian Selection
- Legal Advisor, Listing Agent and Auditor Selection
- Irish Resident Directors Selection
- Money Laundering Reporting Officer (MLRO) Selection
- Operational Review of all Legal Documentation
- UCITS Business Plan Production
- UCITS Risk Management Process Production
- Fund Operational Model and Service Standards

## KB Associates Provides the Following Ongoing Services:

- Directorships
- MLRO
- UCITS compliance
- Operational review and reporting

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<sup>1</sup> Source: as at 30 June 2008, Lipper Ireland Fund Encyclopedia 2008.

\* Fees and levies will differ according to a fund's legal structure, complexity and investment profile.