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The big three political parties' IFSC strategies



The importance of the IFSC to the Irish economy underlined by the commitment of all three big parties

IN ADVANCE OF the General Election, the Minister for Finance, Brian Lenihan, Labour's Joan Burton, and Fine Gael outline their plans for the IFSC as a new era in Government dawns: [pages 8](#)

Regulations raise barriers to entry for hedge funds



MIKE GREENSTEIN, GLOBAL leader of the alternative investment practice at PwC on the impact of changing regulatory burdens for the hedge fund industry: [page 17](#)

The new era of the 'Enforcement Directorate'



WITH A STAFF of 75, the Central Bank's Enforcement Directorate marks a number of significant changes in Ireland's regulatory regime: [page 12](#)

Financial services in firing line for EU tax levies

The EU Council and Commissioner for Taxation are targeting options for 'innovative financing' in the EU: [page 14](#)

Irish captives sector targeted by non EU centres

Solvency II and Italy's CFC regime are posing challenges for the Irish captive insurance industry: [page 5](#)

Aviation finance relief after 'e brief' clarification

Change to interest deductibility were thought to be a blow to one of the brightest corners of the IFSC, but DOF and Revenue reassure the sector on Finance Act: [page 4](#)

Liquidity management deemed more important in Basel III

While risk management up to now has mostly focused on capital, attention is switching to liquidity issues: [page 11](#)

European Commission wants greater competition in accountancy

The European Commission's plans to reduce the dominance of the 'Big Four' accountancy firms: [page 22](#)

New heads of IFSC Clearing House Groups named by outgoing Govt.

New faces include David Guest in banking and Paul McGowan in funds: [page 5](#)

Global regulatory trends in the hedge fund industry raise barriers to entry

With a tidal wave of regulations worldwide, AIFMD, Dodd-Frank, FATCA, the hedge fund industry faces great changes. MIKE GREENSTEIN PwC's Global Alternative Investment Leader & OLWYN ALEXANDER spoke to us about the implications

The alternative investment universe is paradoxically going through a period of stability and great change says Mike Greenstein, PwC Global Alternative Investment Leader. Greenstein who is based in New York says that 'on the one side total global AUM are on the rise and that there is a feeling of optimism and opportunity in the industry. Yet on the other side the industry there is increased risk and complexity as the industry is faced with tremendous change. These changes come in the form of regulatory change, tax change and ongoing investor activism.

The attitude and actions of investors suggest a continuation of the 'trust but verify' mindset that started post credit crisis. 'Trust and transparency are critical industry issues,' he says. The hedge funds managers who are best positioned to benefit are those who focus on 'regaining and retaining the trust of the investor'. This, he says, will tend to favour bigger, established managers. These firms have more mature infrastructures, with sustainable processes, scalable technology and more formal control environments and they have proven themselves more to the market. And with investors being more risk averse they are now more likely to go with a known brand, he says.

'There is a greater institutionalisation of the industry,' according to Olwyn Alexander who leads PwC Ireland's Alternative practice. That is, there is an increasing percentage, as much as 75 p.c. of the total AUM of the industry, that is made up of institutional investors e.g pension funds and other large asset allocators. Alexander points out that this type of investor typically conducts very detailed due diligence reviews.

Alexander points out that the transparency demanded is not exclusively portfolio transparency. She says there is also, for instance, the fund product perspective - in Europe she uses the example of the UCITS product stamp. 'People are looking for regulatory comfort' she says and with UCITS, the disclosure requirements and high level of regulations have proven very valuable to investors post the 2008 liquidity crisis. Another way to achieve greater transparency is investing via managed

accounts. Good corporate governance is key. She says 'fund boards need to be truly independent to operate in the investor's best interest' and that 'all aspects of the fund need to be challenged.' In this area 'there tends to be more governance with European fund managers based simply on the way the market has developed and the local regulatory environments.'

In this regard, 'the US is catching up to some of the practices more common with European managers', he says. For example, in Europe it is more common to have a third party administrator whereas in the US, 'up to the credit crisis, certain funds were largely self administered. However, post crisis, investors clearly expressed a strong preference, if not demanded, a third party administrator. It is likely that boards will also need to be more active in the future. Right now, European boards are more active than in those of US managed funds. The US funds simply do not have third party governance at the same level.'

Central to this transparency trend is 'controls transparency'. And the questions being asked are: What is the board's role? Who are the administrators? What are the controls in place? 'There will be a requirement for greater controls reporting and transparency,' he says. In this area they say the SAS 70 report has assisted in meeting some of these demands. The Statement on Auditing Standards 70 (SAS 70) was created by the American Institute of Certified Public Accountants and defines the professional standards used by auditors to assess and report on the internal controls of a service organisation. Alexander says that controls transparency has become more important post-Lehman's with the question being asked by investors 'what controls do you have around my assets & where are they held?'

Investors are now very focused on due diligence, and they are pulling managers in different ways by asking for different things. In light of this, the most efficient way to deal with these demands it is for managers to produce this standardised, industry recognised report to help satisfy investor needs, says Greenstein.

With the vast amount of regulation that the industry is facing in FATCA, AIFMD and Dodd-Frank the sector will continue

to be "flat". He takes the metaphor from Thomas Friedman: *The World Is Flat: A Brief History of the 21st Century* - the title is a metaphor for seeing the world as a level playing field in terms of commerce.

What this means for the industry is that there are only a few key jurisdictions like Cayman, Dublin, and Luxembourg all of which will continue to flourish. Regulations from one geography will impact another (e.g. AIFMD starts in Europe but inevitably impacts US managers). He says, however, that US managers have mainly been focusing on Dodd Frank and the implications that it has had on their operations as its implementation date is imminent (i.e. July 2011) says Alexander: 'Portfolio managers want to focus on the trading book. They will need support with all of these additional compliance and regulatory demands.'

With this increased regulatory burden the 'big are getting bigger. They have greater infrastructure. There were no barriers to entry in the past. It was low capital intensive. Now regulation is a barrier to entry and it also takes longer to raise capital.' And as well as this, 'You know the rules but you don't know the rigour that it will be enforced with'.

Alexander says that the growing regulation leads to a 'bifurcation of the industry.' In this doubly split industry, she foresees that Cayman as a jurisdiction will still serve certain elements of the US market and then managers can produce a different product for the European market that can be domiciled in Europe.

'European centres like Luxembourg and Dublin are operating parallel to Cayman' says Alexander. She does not see them necessarily in competition. She says a manager can launch their offshore fund in Cayman and their onshore fund can locate in a centre like Dublin. Greenstein says large asset managers are looking to diversify their product mixes and asset classes. Having multiple distribution channels allows this. However with US managers this is not as much the case as there is not as much familiarity with the UCITS brand. Alexander says that 'we may see some curtailment of who can invest in UCITS funds with UCITS V.'