

Dublin Funds Industry Association

Newsletter

April 2006

CONTENTS [\(click on article to view\)](#)

- 1 Introduction
- 2 Dublin Funds Industry Reaches
New Milestones
- 3 Financial Reporting Standards – Implications for the
Irish Investment Funds Industry
- 4 Alternative Investment Funds – Ireland’s Global
Position
- 5 Legal & Regulatory Updates

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Editor's Note

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



EDITOR'S NOTE

Following previous industry Newsletters, which have been published annually for the past two years, one of the objectives of the marketing committee this term was to publish two editions of the Newsletter this year. This is the first edition of 2006 and the second is on schedule to be published mid-year, with the intention that each edition will carry a number of articles, highlighting various trends and developments in the industry, coupled with a legal and regulatory and statistical update, while also including mention of any upcoming events.

The articles contained in this issue reflect some of the significant industry developments achieved during the last year. The introduction provides a brief overview setting the context of where the industry is at and where it has come from, emphasising the importance of ensuring the fundamentals, the regulatory environment and resources are kept right, while highlighting the increased regionalisation of the industry in Ireland and outlining EU developments, such as the Green Paper on Asset Management and the continuous evolution of UCITS. Other articles include an analysis of the exceptional growth recorded by the industry over the last year, both in the value of assets domiciled in Ireland and in the value of assets being serviced by the industry in Ireland yet domiciled elsewhere. This industry analysis is followed by a piece on 'Alternative Investment Funds – Ireland's Global Position'. Other articles include the impact of Financial Reporting Standards (FRS) on the funds industry, which follows a paper prepared by the Association's technical committee entitled, 'Recent developments in Financial Reporting Standards – Implications for Investment Funds', which was presented to the industry in December 2005 (a copy of the paper is available on www.dfia.ie). There has also been a myriad of legislative and regulatory developments over the last year, both at EU and domestic level, details of which are included in the legal and regulatory update.

In continuing our international marketing objective, in late 2005, the DFIA hosted a series of industry briefing seminars in the core markets of Boston and New York, and in early 2006 in London. These seminars were very well received by the large audiences in attendance in both New York and Boston and a record number in

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



attendance in London and certainly achieved the objective of bringing the international market up-to-date with all of the latest industry developments in Ireland. It is the ambition of the DFIA to host a further series of seminars later in 2006, details of which will be circulated over the summer.

Some dates to note in the coming weeks and months include, the Annual Industry Dinner, 27th April 2006, in the Four Seasons Hotel, the DFIA/NICSA Annual Global Funds Conference, 29th – 31st May 2006, which is taking place in the K Club, Straffan Co. Kildare. The full conference brochure is available on www.dfia.ie. There will also be 2 specific one-day events, the DFIA Trustee Seminar in September 2006 and the second DFIA HR & Training Conference which is tentatively scheduled for 7th September 2006. A new industry initiative, a series of 'valuations discussion forums' are scheduled to take place throughout 2006, with the first, which will focus on Fund of Funds taking place on 25th April. This initiative aims to bring together industry representatives to share experiences and thoughts on best practice and to pool industry expertise on alternative investments valuation. As always any other events will be posted on the DFIA website, www.dfia.ie.

2006 has got off to a flying start with continued growth in all aspects of the industry, new jobs, new operations opening, established operations expanding and new products being launched. The opportunities afforded by UCITS III and the CCF will help to keep Ireland a jurisdiction of choice for the international fund industry. As the industry continues to spread outside of Dublin, the expansion of the Association's member companies throughout Ireland is a real endorsement of the international high quality reputation that Ireland continues to hold in the fiercely competitive global funds industry.

As we enter the second quarter of 2006 may the strong start to the year be an indication of what is to follow and may 2006 see continued success and development in the Irish investment funds industry!

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Introduction

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



INTRODUCTION

Recently I was preparing a presentation on the funds industry in Ireland. It wasn't the first time I was asked to give such a presentation, and here's hoping it won't be the last. For two reasons I took out the presentation that I had previously prepared, firstly to seek inspiration and secondly to benefit from any previous effort! Looking through the presentation I saw a lot of figures; NAV growth, number of funds domiciled, employment growth and while the figures were very impressive, I'm not sure the presentation was. So I did what I should have done in the first place, I started thinking. I asked myself 'what is it that has contributed to the growth and development of the funds industry?' and/or 'what are the fundamentals necessary for a jurisdiction to develop as a domicile and administration centre for investment funds?' In fact one of the very first pieces I wrote when I joined the DFIA was on this exact topic and at that stage, I was able to narrow it down to three fundamentals, and this time I concluded with the exact same three fundamentals; firstly, a catalyst to attract, there has to be some draw to attract the business; secondly, the legal and regulatory environment, to facilitate the business, and thirdly, an industry to service the business.

The relevance and permanence of these fundamentals became apparent earlier this year when we were preparing for the Industry Forum, the gathering of senior executives from the industry companies that came together to identify further areas where the industry can work together to help ourselves. Part of the planning process for the forum included getting the industry companies to identify the issues they felt were of critical importance for the continued evolution and development of the industry in Ireland. Analysing the feedback and to prepare a forum agenda, the issues raised, while phrased in many ways, amounted simply to two things; the regulatory environment and industry resources. Either a distinct sense of déjà vu or confirmation of the permanency of the necessary fundamentals.

No matter how often it is said, there is no getting away from the fact that the regulatory environment is the most important factor in choosing a domicile for an investment fund. While there are a number of other factors that support and

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



complement the choice of domicile for an investment fund it remains the case that the regulatory environment is the single most important factor, a point that was confirmed in last year's Fund Promoter Survey. The regulatory environment determines the speed to market of a new product, influences the parameters against which a product can be prepared, determines the operational requirements and issues that the product must address and governs the pace and scope of product evolution. The regulatory environment is the authorisation process, it is the organisational requirements of the fund and management company and it is also the determiner of regulatory policy. It is not one or the other, it is all three, and when choosing a domicile for an investment fund all aspects of the regulatory environment are included for consideration.

Much of the success enjoyed by the investment funds industry has been attributed to the existence of an appropriate regulatory environment. Appropriate being defined as responsible and flexible, understood as pragmatic and to allow for innovation.

Future success is equally dependant on an appropriate regulatory environment. However, with approximately 80% of the value of European funds structured as UCITS products the guardian of the regulatory environment for European investment funds is most definitely the EU Commission. In July 2005 the EU Commission published the Green Paper on Asset Management. The purpose of the Green Paper and the subsequently formed experts groups are to provide for the future direction of an integrated and competitive European market for investment funds. While the original UCITS Directive has proven to be a very important first step towards an integrated and competitive market for investment funds, the original UCITS Directive came into force in 1985. As such there are close to 20 years experience of the benefits of a harmonised market, 20 years of lessons that have been learnt and 20 years consideration of the potential that a truly integrated and competitive market could deliver. While the 1985 UCITS Directive provided the first step towards the integration of the European market, the UCITS experience has also whetted the appetite and highlighted the potential that a truly integrated and competitive European market can provide. It is now time to sate the appetite and deliver on the potential. As a participant in the European funds industry it is our desire that the opportunities and potential that this review present are maximised. However, as a representative of one of the industries involved I think it is an opportunity that cannot be ignored, which brings me to my second point, industry resources.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



The industry in Ireland has enjoyed positive growth from its inception. From a standing start at the beginning of the 1990's the investment funds industry in Ireland reached a significant milestone in 2005, with the net asset value of funds being serviced by the industry breaking through the \$1 trillion mark in mid 2005 and reaching €1 trillion at the start of 2006. The net asset value of Irish domiciled funds increased by 35 per cent during 2005 and this trend has continued into 2006, with figures as at 31st January 2006 recording the net asset value of Irish funds at over €600 billion being serviced by the industry in Ireland. This is alongside very strong growth in the net asset value of alternative investment funds, according to the results of an industry survey carried out in the third quarter of 2005, at almost €400 billion.

One thing all growing industries have in common, irrespective of which sector they are involved in or where they are located, is an increased demand for resources. Given that the investment funds industry in Ireland has enjoyed significant growth each year the challenge of increased demand for resources has been an industry companion ever since the industry's inception. Given that increased demand for resources is associated with industry growth, it is a challenge that I hope is a constant industry companion. While the challenge is welcome, recognising it and addressing it is necessary to facilitate further industry development. While the sustained industry growth is the evidence, the manner with which the challenge of increased demand for resources has been addressed includes sourcing industry professionals from the formal education system and from other jurisdictions.

As an economy, Ireland has had inward migration of more than 100,000 in the last year (mostly from EU accession states) and the education programmes offered by the educational institutions and the industry continue to produce top quality graduates. As the domestic profile of the industry continues to develop more and more graduates are choosing and benefiting from a career in the investment funds industry. However, one of the most significant developments in the industry over the past number of years has been the regionalisation of the industry – it is now a national industry. This process which began with moves by State Street, PFPC, Fortis and others, of substantial parts of their operation to centres such as Kilkenny, Wexford and Galway, has accelerated in the past year with the development of significant operations by IFS in Naas, BISYS in Waterford, AIB/BNY and Citco in Cork, to name a few. By managing their growth in this way, industry companies are

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



meeting the demands of their existing clients and are in the marketplace seeking new ones.

But these developments have left the Dublin Funds Industry Association somewhat misnamed. As such, to better reflect the industry we are proud to serve, later in 2006 the industry association will become the Irish Funds Industry Association (or some other equally catchy name!)

Gary Palmer, Chief Executive, DFIA

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Dublin Funds Industry Reaches New Milestones

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



IRISH FUNDS INDUSTRY BREAKS THROUGH \$1 TRILLION IN 2005

Since its establishment in 1989, the Dublin Funds Industry has recorded exceptional annual growth and 2005 is no exception, up over 35 p.c. on 2004. In addition to administering Irish domiciled funds, Dublin's international reputation for excellence in fund servicing has also shown outstanding growth, as non-domiciled funds increased by 26 p.c. in 2005. Consequently many promoters, who may have their funds domiciled in a jurisdiction other than Ireland, opt to have their funds administered in Ireland.

Irish Registered Collective Investment Schemes

Irish domiciled funds are valued at €585 billion as at December 31st 2005. This represents a growth rate of 35 p.c. during 2005. The fact that Dublin as a fund centre has the capability and expertise to service a broad range of product structures has ensured that growth rates were sustained in spite of strong global competition. As at June 30th 2005, over 296 of the leading international fund promoters had opted to domicile their funds in Ireland (source Lipper Fitzrovia). Promoters are drawn from diverse geographic regions, with the United States representing the biggest single geographic zone from where promoters originate.

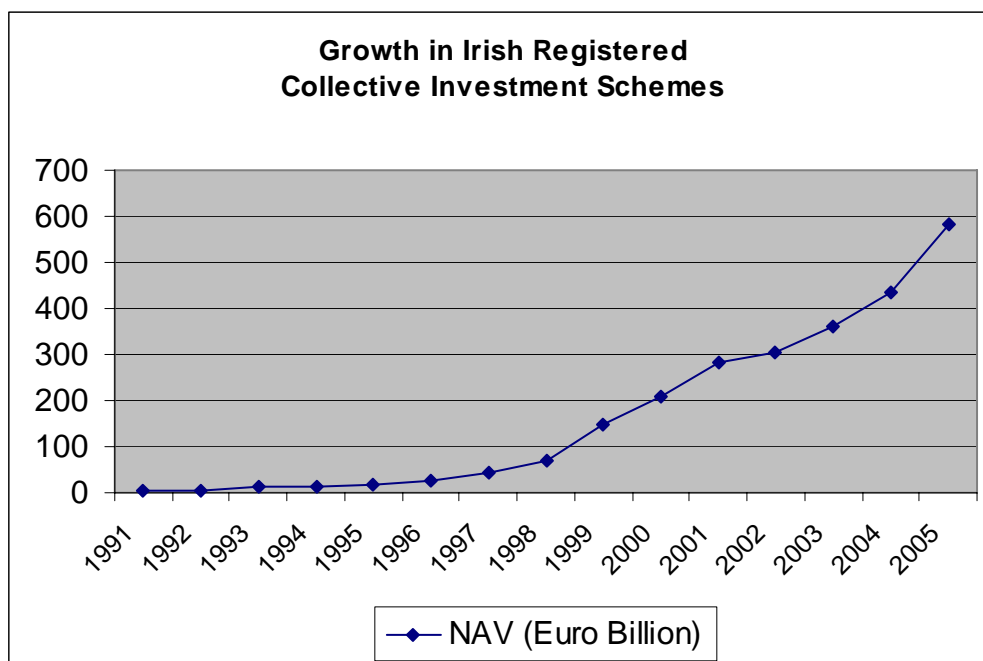
The following graph charts the growth of Irish domiciled funds and records some exponential growth rates over its 15 year existence. The hallmark of the Dublin Funds Industry has been consistently spectacular growth, year on year, as demonstrated by the graph below. During 11 of the 14 years analysed, double-digit growth rates were recorded, in percentage terms, with triple digit growth in 2 of those years. During 2002, a period when many jurisdictions experienced stagnation or negative growth, Irish registered funds recorded a growth rate of 7 p.c.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092





IRISH REGISTERED COLLECTIVE INVESTMENT SCHEMES

(Net Asset Value, Annual Growth in NAV)

Year End	Total Net Asset Value (Euro Million)	Annual % Growth
1991	2,506.85	
1992	4,665.22	86 %
1993	11,315.45	143 %
1994	13,032.74	15 %
1995	18,801.33	44 %
1996	25,950.16	38 %
1997	43,216.20	67 %
1998	70,946.14	64 %
1999	149,857.90	111 %
2000	208,337.10	39 %
2001	284,177.60	36%
2002	303,881.30	7%
2003	361,760.33	19%
2004	434,589.40	20%
2005	584,509.20	35%

Table prepared from figures provided by the Financial Regulator

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



UCITS

Since the first UCITS fund was registered in 1989 these funds have played an increasingly important role in contributing to the growth that the industry has enjoyed. As at year-end, December 2005, the Net Asset Value of Irish registered UCITS was €463 billion representing 79 p.c. of the total value of Irish registered funds. UCITS growth is set to continue as UCITS III is fully implemented and provides the opportunity for new fund products.

IRISH REGISTERED COLLECTIVE INVESTMENT SCHEMES IN THE UCITS FUND STRUCTURE

(Net Asset Value, Annual Growth in NAV and Total NAV for Irish Registered Schemes)

Year End	Net Asset Value (Euro Million)	Annual Growth	% of Total NAV represented by UCITS
1991	776		31 %
1992	2,212	185 %	47 %
1993	6,311	185 %	56 %
1994	8,053	28 %	62 %
1995	11,829	47 %	63 %
1996	14,762	25 %	57 %
1997	20,749	41 %	48 %
1998	42,987	107 %	61 %
1999	94,502	120 %	63 %
2000	145,399	54 %	70 %
2001	215,188	48 %	76 %
2002	238,501	11 %	78 %
2003	285,372	20%	79 %
2004	343,308	20%	79%
2005	462,955	35%	79%

Table prepared from figures provided by the Financial Regulator

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Non-Irish Registered Funds

Although impressive the above analysis understates the actual scale of funds administered out of Dublin as no consideration has been given to the growing levels of non-Irish funds that are administered by industry companies. The information available to chart the growth of these funds is not as readily available but this does not belie the fact that the growth has been equally impressive.

NON – IRISH REGISTERED FUNDS ADMINISTERED IN IRELAND (NAV and year on year growth in NAV)

	Asset Value	Annual Growth
June 1998	\$45.70bn	
June 1999	\$53.90bn	18%
June 2000	\$96.20bn	78.5%
June 2001	\$131.60bn	37%
June 2002	\$139.70bn	6%
June 2003	\$183.50bn	31%
June 2004	\$259.00bn	41%
June 2005	\$327.00bn	26%

Table prepared from figures provided in Lipper Fitzrovia Dublin Encyclopaedia.

Total Funds Administered in Ireland

Combining the asset value of Irish and non-Irish registered funds the value of funds administered in Ireland as at the end of June 2005 was USD951billion according to Lipper Fitzrovia, and this is even higher if the industry survey is taken into account and pushes the NAV over \$1trillion. Further, the number of funds administered in Ireland continues to grow, as at 30 June 2005 there were over 6,000 funds/sub funds administered in Ireland. (Source Lipper Fitzrovia).

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Financial Reporting Standards

Implications for the Irish Investment Funds Industry

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



IMPACT OF FRS ON INVESTMENT FUNDS

Over the last eighteen months, the Accounting Standard's Board (ASB) has issued a number of new Financial Reporting Standards (FRSs) which will have a direct impact on the financial reporting requirements of investment funds.

The Standards affected are

- FRS 21 (IAS 10) – Events after the balance sheet date
- FRS 23 (IAS 21) – The effects of changes in foreign exchange rates
- FRS 25 (IAS 32) – Financial Instruments: Disclosure and Presentation
- FRS 26 (IAS 39) – Financial Instruments: Measurement
- FRS 28 – Corresponding amounts

The change in standards will apply to entities on the following dates:-

FRS 21 Events after the balance sheet date

FRS21 applies to all entities for accounting periods beginning on or after 1 January 2005.

FRS 23 The effects of changes in foreign exchange rates

FRS 23 applies to all entities for the accounting periods in which they apply FRS26 for the first time.

FRS 25 Financial Instruments: Disclosure and Presentation

The disclosure requirements of FRS 25 apply to all entities for accounting periods in which they first apply FRS 26.

The presentation requirements of FRS 25 apply to all entities for accounting periods beginning on or after 1 January 2005.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



FRS 26 Financial Instruments: Measurement

- For accounting periods beginning on or after 1 January 2005, FRS 26 applies to all listed entities preparing their financial statements in accordance with UK and Irish requirements.
- For accounting periods beginning on or after 2006 unlisted entities using accounting policies that are consistent with the fair value measurement rules incorporated in the Companies Act or equivalent legislation will be required to apply FRS 26.
- It is expected that FRS 23, FRS 25, and FRS 26 will apply in full to all other entities not earlier than accounting periods beginning on or after 1 January 2007.

Overview of each FRS

FRS 21 – Events after the balance sheet date

FRS 21 outlines the circumstances when an entity should adjust its financial statements for events that occur after the balance sheet date, and the disclosures the entity should make in this regard.

The FRS provides detailed examples of

- adjusting events after the balance sheet date
- non-adjusting events after the balance sheet date
- Dividends
- Going concern
- Disclosure

The main impact arising from FRS 21 is that if an entity declares a dividend after the balance sheet date, that dividend should not be recognised as a liability as at the balance sheet date, but be recognised subsequently.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



FRS 23 – The effects of changes in Foreign Exchange Rates

The previous use of 'Reporting Currency' for financial reporting has been amended. Financial reports must now apply the following 'currency' definitions:

- (i) functional currency being the primary currency and environment in which the entity operates
- (ii) presentation currency being the currency in which the financial statements are presented
- (iii) foreign currency being any currency other than the functional currency of the entity

A functional currency is generally determined by evaluating the currency of sales prices of goods and services, the country of regulation of the entity and the currency that mainly influences labour, materials and other costs of the entity. Other considerations may be the currency used in finance activities of the entity.

FRS 23 requires that where the presentation currency is different from the functional currency, or there is a change to the functional currency of the reporting entity or a significant affiliate, that fact shall be stated, together with the reasons for the change.

FRS 25 – Financial instruments: Disclosure and Presentation

The objective of FRS 25 is to enhance financial statement users understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

Disclosure

Requirements include:

- Disclosure by class of each financial asset or liability, the extent and nature of the instrument, accounting policies adopted, recognition criteria and measurement principles
- Disclosure of specific information about risk exposure, including interest rate and credit risk
- Disclosure of specific information about the fair value of financial instruments

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Presentation

The revised presentation requirements under FRS 25 cover a number of areas.

One of the main changes relates to the classification of redeemable participating shares as liabilities, whereby any financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another asset should be treated as a financial liability. Where an investor may have a holding in an investment fund of a redeemable participating share, that holding should be classified as a liability in the fund's financial statements rather than an equity, specifically as 'Net Assets attributable to Shareholders'.

FRS 26 – Financial Instruments: Measurement

FRS 26 sets out requirements for measurement of all financial assets and liabilities, including derivative instruments, in an entity's balance sheet. The instruments which are in scope for FRS 26 are debt and equity investments, loans and receivables, debt and derivatives, including interest rate and currency swaps, forwards, purchased and written options, futures and most other commodity contracts.

FRS 26 implements IAS 39 requirements in relation to the measure of financial instruments only. It does not implement IAS 39 requirements in relation to the recognition and derecognition of financial instruments.

Almost all investments are required to be valued at fair value under FRS 26 (except held-to-maturity debt securities, loans and receivables and unlisted equities where fair value can not be reliably measured.) In addition, FRS 26 requires changes in fair value to be recognised in the statement of total recognised gains and losses, rather than recorded as equity as required under IAS 39.

FRS 28 – Corresponding Amounts

FRS 28 requires comparative information for all amounts reported in the primary financial statements. In the case of an umbrella fund with a number of active sub-funds, the requirements may significantly increase the amount of numerical disclosure required in the financial statements.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



In conclusion

In summary, this is just a brief outline of the key changes. The Technical Committee of the DFIA met several times during 2005, evaluating the changes, consulting with industry and compiling a detailed industry briefing paper on each of the FRS standards and their implication for investment funds. This paper can be accessed via the DFIA website www.dfia.ie. In addition, it is recommended that you consult with your audit partner if any of the above may impact your business.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Ireland – Servicing over one third of global Alternative Investment Funds

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



IRELAND – SERVICING OVER ONE THIRD OF GLOBAL ALTERNATIVE INVESTMENT FUNDS

Major growth in investment funds servicing

The substantial growth of the investment fund servicing industry in Ireland over the past 15 years has been widely acknowledged as a phenomenal success story. From a standing start the industry in Dublin (and more recently elsewhere in Ireland) now services over USD1 trillion in assets, (USD1,014 billion) of which some USD391 billion are domiciled outside Ireland.

Less well known perhaps has been the emergence of Ireland as the world's No. 1 centre for the servicing of internationally marketed alternative investment funds, (AIFs).

Alternative Investment Funds Survey

The global market for AIFs has grown significantly over the past ten years. The total asset value of the world's AIF market is now estimated to exceed USD1.3 trillion. US consultants Greenwich Van have recently predicted that hedge fund AuM alone will grow to USD2 trillion by 2009 and USD6 trillion by 2015.

Despite recent predictions as to their imminent demise, global AIFs finished 2005 strongly and as an asset class have matured, both in distribution opportunities and in general acceptance in most developed markets. It is generally considered that the recent interest of regulators in this sector, both in the US and in Europe, will enhance more widely the marketability of AIFs.

A recent survey conducted by the Dublin Funds Industry Association, (DFIA) has revealed that as of 30 June 2005, 3,020 AIFs with a net asset value (NAV) of USD474 billion were being serviced by the investment funds industry in Ireland. As the NAV of AIFs globally is estimated at approximately USD1.3 trillion, the investment funds industry in Ireland, therefore, services approximately 37 per cent of the total global industry. Comparing the 2005 survey results with a similar survey undertaken

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



in March 2003, the number of funds being serviced is up 43 per cent, from 2,113 to 3020. The NAV increase is even more impressive, up 138 per cent up from USD199 billion in 2003.

Table 1: Alternative Investment Funds 2003-2005

	March 2003	June 2005	% Increase
Number of funds (including sub funds)	2113	3020	43%
Net Asset Value (USD Billion)	\$199bn	\$474bn	138%

In excess of 2,000 people in 39 industry service providers, (excluding advisory firms), are directly employed in the provision of services to these AIF's.

Analysing the type of AIF's being serviced, the survey revealed that 62 per cent by number of funds and 61 per cent by assets are hedge funds, 31 per cent by number of funds and 32 per cent by assets are funds of hedge funds, 2 per cent by number of funds and 1 per cent by assets are private equity and venture capital funds, with 1 per cent by number of funds and 1 per cent by assets being property funds. Other AIFs represent the remaining 4 per cent by number of funds and 5 per cent by assets.

Table 2: Alternative Investment Funds by Fund Type 2005

	No. of Funds	% of Total	Assets (USD)	% of Total
Hedge Funds	1,879	62%	289,079,582,501	61%
FoHF	930	31%	150,103,241,691	32%
PE & VC Funds	48	2%	3,623,397,151	1%
Property Funds	23	1%	5,499,837,925	1%
Other AIF Funds	140	4%	25,612,985,689	5%
Total	3,020	100%	473,919,044,957	100%

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Comparing with the March 2003 survey the percentage split of investment type is relatively consistent. However, as one would expect, there has been an increase in the proportion of assets reported in funds of hedge funds and a corresponding decrease in the funds categorised as 'Other'. In 2005 funds of hedge funds represented 31% of the number of funds compared to 26% in 2003 and 32% of the NAV in 2005 compared to 24% in 2003.

In analysing the domicile of the AIFs serviced by the industry in Ireland 62 per cent were reported as being Cayman domiciled, 14 per cent Irish domiciled, 13 per cent British Virgin Islands domiciled, 4 per cent Bermuda domiciled and the remaining 7 per cent of funds are domiciled in the US, Guernsey, Bahamas, Luxembourg, Jersey, UK, Netherlands and Finland as set out in Table 3.

These figures are broadly comparable to those reported in the March 2003 survey, with above average increases in the asset size of Irish, Cayman and Guernsey funds and above average increases in the number of funds domiciled in Cayman, Guernsey and the US, although the latter two were off a relatively small base.

Table 3: Alternative Investment Funds by Domicile 2005

	No. of Funds	% of Total	Net Asset Value Million (\$)	% of Total	Average Fund Size Million (\$)
Ireland	434	14%	82,700	18%	191
Cayman	1,870	62%	297,876	63%	159
Bermuda	122	4%	10,964	2%	90
BVI	394	13%	57,986	12%	147
US	59	2%	5,372	1%	91
Guernsey	54	2%	4,325	1%	80
Other	88	3%	14,697	3%	167
Total	3,020	100%	473,919	100%	N/A

Respondents to the survey questionnaire reported that the majority (65 per cent) of the funds have less than 100 shareholders. Of AIFs that were reported as being listed on a stock exchange, 90 per cent are listed on the Irish Stock Exchange. This

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



serves to highlight the increasing emergence of a general default model, consisting of a Cayman domicile, an Irish listing and a service provider in Ireland.

As a final point of interest, highlighted in the survey, the most commonly used financial reporting standard in preparing financial statements for AIFs was IFRS, 48 per cent of AIFs stated that they report under IFRS, 29 per cent under US GAAP and 21 per cent under UK/Irish GAAP.

Industry Response

In response to the publication of the DFIA Survey, John McCann, CEO of AIF administrator Trinity Fund Administration stated 'the continued success of Ireland as the global location for AIF servicing is an acknowledgement by global promoters and investment managers of the significant IT and human resource investments made by the industry here over the past 5 years with the intention of matching and exceeding the increasingly sophisticated demands of AIF promoters and investors.'

Christopher Fawcett, co-founder of UK based fund of hedge funds manager Fauchier Partners and Chairman of the Alternative Investment Management Association, AIMA, said, 'For many of our fund of funds, Ireland has been the preferred choice when it came to servicing. Our experience in Ireland to date has been extremely positive, thanks to the quality of the service providers and the convenience of the time zone.'

Growth in Irish based AIF investment managers

The expansion of the AIF servicing industry in Ireland has also, not unexpectedly, coincided with the emergence of a small but growing band of both indigenous and international AIF investment managers, who have located their front office investment management teams in Dublin. Companies, such as Vega, Zais and Cardinal all conduct investment management activity in Dublin. One of the new successful breeds of Irish AIF managers, David Walsh of Appleton Capital Management commented:

'While quantitative investment management talent has always been present in Ireland, opportunities previously only existed in larger centres such as London and

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



New York. The growth of Dublin as a financial centre means that the best and brightest can now thrive within the Dublin AIF community. This reflects the growing respect that the international investment community holds for the quality of the people available here.'

The Irish investment funds industry looks forward to continued growth in the alternative investment funds product and welcomes the challenges and opportunities that may bring.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Legal and Regulatory Developments

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



LEGAL AND REGULATORY DEVELOPMENTS

The European Commission

Green Paper on Financial Services Policy (2005 - 2010)

The European Commission launched a Green Paper on the further integration of EU financial markets. It sets out the objectives of the Commission's financial services policy for the forthcoming five years, which include:

- Continuing the dismantling of barriers to economic integration
- Encouraging the free movement of capital and services in the financial market in a low cost structure
- Enhancing and enforcing the existing legislative framework and promote regulatory convergence

The Green Paper focuses primarily on implementing existing rules and on co-operation, as opposed to proposing new regulation.

The Annex to this Green Paper refers to the fact that there are still difficulties for UCITS cross-border sales and the 'product passport'. It also states that fund managers have not been able to export their expertise, and that existing UCITS legislation may 'entail significant missed opportunities' for the industry.

Further initiatives proposed in the Green Paper are to examine whether legislation is required to allow consumers to avail of mortgages, saving plans, insurance and pensions on a cross border basis.

GREEN PAPER ON INVESTMENT FUNDS

In 2005, the Commission published a Green Paper on the enhancement of the EU framework for investment funds.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



The paper gives a general assessment of the impact of the UCITS Directives and charts the proliferation of UCITS across the EU since the original 1985 UCITS Directive. It also discusses the recent amendments known as UCITS III and their impact on the industry as a whole. The Green Paper affirms that there is currently no compelling case for fundamental legislative overhaul. Instead, the paper identifies concrete short term measures to ensure consistent implementation and the more efficient operation of existing rules.

The paper sets out the current priority actions, which are to consolidate the UCITS passport and to provide more guidance on investor protection safeguards. The priority actions will include:

- Eliminating the uncertainty surrounding the recognition of funds launched during the transition from UCITS I to UCITS III, ensuring that the CESR guidelines are fully implemented
- Simplifying the notification procedures for passporting funds, streamlining these procedures across Member States
- Promoting implementation of the Commission's Recommendations on Derivatives and the Simplified Prospectus
- Clarifying the definition of 'eligible assets' which can be acquired by UCITS

The paper also outlines the long term structural challenges that the EU investment funds industry faces, including continuous innovation in investment strategies and products; new forms of business model; emergence of specialised service providers; distribution systems in flux and more discerning investors.

To meet these complex challenges, the Green Paper suggests that a UCITS review would be an opportunity to begin the thought process on how to address these broad issues in the long term. The paper also outlines the mechanisms that could be used to ensure a cost efficient industry. It concludes that there are too many funds in Europe with small asset bases and accordingly there are limited opportunities for economies of scale. The Green Paper lists the following mechanisms that could lead to an overall reduction in costs:

- Greater consolidation through cross-border fund mergers
- Greater consolidation through fund pooling

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



- Fund custody and depository services could benefit from rationalization. The Green Paper proposes to examine the implications of splitting responsibility for supervision of the fund and depository and asset custody function across the Member States.
- Greater harmonisation of the infrastructure for processing of fund units. The Green Paper suggests that industry should continue to take the lead in this respect with the Commission only becoming involved in the event of insurmountable regulator or policy barriers.

THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS (CESR)

CESR CONSULTS ON HISTORICAL INFORMATION TO BE INCLUDED IN A PROSPECTUS

In July 2005, CESR published a consultation paper on the nature of the financial information to be included in a prospectus, where the issuer has a complex financial history. This is to allow an investor make an informed assessment of the financial position of the issuer as required by the Prospectus Directive. The consultation period closed in September 2005.

REPORT ON IMPLEMENTATION OF UCITS RECOMMENDATIONS

In July 2005, CESR issued a report on its review of the implementation of two European Commission's Recommendations across the Member States. These recommendations deal with the use of financial derivatives instruments for UCITS and some key contents of the simplified prospectus. The report concludes that overall implementation of the Recommendations is generally satisfactory across Member States. Nevertheless, a group of several Member States are still working on implementation and it is expected that the situation will improve by the end of 2005.

MEDIATION MECHANISM AMONG SECURITIES SUPERVISORS

In September 2005, CESR published a draft paper on a mediation mechanism for securities supervisors. The objective of this mediation mechanism is to facilitate the rapid and effective resolution of disputes between supervisors, facilitate supervisory

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



convergence, and ensure fairer implementation and application of EU securities legislation and CESR level measures. The mediation mechanism will cover cross-border disputes related to co-operation and exchange of information between securities regulators, enforcement of financial information, as well as operational disputes, especially those related to mutual recognition of decisions. The mediation mechanism will be designed as a 'peer mechanism' among CESR Members, but market participants will be entitled to bring to the attention of their national securities supervisors issues that the latter might decide to submit to the mediation mechanism. The outcome of the mediation will not be binding, but CESR members will be expected to accept mediation requests, especially in disputes relating to co-operation and exchange of information. The consultation period closed on 30 November 2005.

SECOND CONSULTATION ON DRAFT ADVICE CONCERNING 'ELIGIBLE ASSETS' OF UCITS

In October 2005, CESR published a second consultation paper on its draft advice to the European Commission regarding clarification of the definition of 'eligible assets' for investments of UCITS. CESR has expanded its advice on the basis of the responses received to its first consultation, especially on the following issues:

Liquidity of transferable securities

Certain industry responses had questioned liquidity and what a UCITS must do in assessing whether an individual transferable security is sufficiently liquid for a portfolio. CESR's advice now suggests that a UCITS may buy or hold transferable securities of varying liquidities. However it must always ensure that the UCITS is in a position to re-purchase or redeem units at the request of any unit-holder.

Eligibility of closed ended funds

Responses to the original consultation queried whether the wording of CESR's advice could rule out UCITS investing in closed ended real estate funds. CESR has clarified that the revised requirements would allow for UCITS to invest into these types of funds.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Valuation of money market instruments – amortization

Responses queried whether CESR's advice would rule out money market funds using amortized cost to value their investments.

CESR has clarified that the valuation systems can be based on market data or valuation models including amortized cost.

Eligibility of derivative instruments on financial indices

Industry expressed an interest in allowing derivatives on financial indices based on non-eligible assets. In CESR's view, indices based on commodities may be eligible provided they comply with the criteria in the draft advice.

Index replicating UCITS

CESR asked for feedback on an estimation of the quality of the index replication. It noted that a standardized approach would improve the quality of the product available to retail clients. CESR has asked for professional associations to help develop such a method of standardization, taking into account regulations already in force in this area.

CESR submitted its final advice to the European Commission in January 2006.

UCITS NOTIFICATION PROCEDURES

In October 2005, CESR issued a consultation paper setting out guidelines for regulators regarding UCITS notification procedures. Many UCITS that are sold cross-border have experienced complications and uncertainty in certain host countries in the operation of this notification procedure. These uncertainties have given rise to significant compliance costs and unnecessary delays that are an important source of friction in the European market. The importance of progress in this area was also underlined in the Commission's Green Paper on Investment Funds published in July 2005. In order to address this issue, both from a practical and a legal perspective, the CESR Expert Group on Investment Management decided to develop consistent standards for notification requirements.

According to CESR, this work on notification procedures should be seen in the context of the work CESR is currently undertaking on "eligible assets" in achieving a fully functional European passport for UCITS. It is felt that if regulators have

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



confidence that the products notified for marketing are indeed UCITS-compliant, this would facilitate the stream-lined operation of notification requirements.

The consultation closed on 27 January 2006.

THE FINANCIAL REGULATOR

MEMORANDUM ON TRANSITION TO UCITS III

When implementing UCITS III, a number of practical and interpretational issues in relation to the transitional provisions arose across the EU. As a result, CESR published guidelines on 3 February 2005 to assist regulators in dealing with these issues. The Financial Regulator then issued a memorandum on the conversion of management companies and UCITS funds to UCITS III status. The memorandum summarizes the CESR guidelines and the procedures that were agreed with the DFIA. It also highlights applications which are considered under a 'fast-track' process and those considered under a 'non-fast track' process for conversion under UCITS III.

UCITS: RISK MANAGEMENT PROCESS

On 20 July 2005 the Financial Regulator issued a draft Guide to filing requirements for the UCITS risk management process. This draft guide incorporates the provisions per Section 2 'Risk Management Process' in Guidance Note 3/03. Under UCITS III a UCITS must employ a risk management process that enables it to monitor, measure and manage the risk attached to financial derivative instruments. The Financial Regulator must be provided with details of this process. The draft Guide requests UCITS to submit their risk management documents in a standard format, indicating the suggested minimum content. The risk management process documentation should be written in the style of a 'procedures document', and should be a stand alone document which is cross-referenced to other non-risk management process documents. In the case of umbrella funds, the risk management process must be submitted in relation to the umbrella fund as a whole. The Financial Regulator requires a UCITS to state its methodology for calculating risks associated with derivatives and to provide the rationale for so doing. This approach allows for a certain amount of flexibility allowing a UCITS to apply the most appropriate methodology for each respective strategy.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



FINANCIAL DERIVATIVE INSTRUMENTS - EFFICIENT PORTFOLIO MANAGEMENT

On 28 October 2005, the Financial Regulator issued a memorandum with regard to 'Financial Derivative Instruments - Efficient Portfolio Management' (EPM). This was to provide clarification on EPM which has been included in the CESR paper 'Clarification of Definitions concerning Eligible Assets for Investments of UCITS.'

The Financial Regulator issued a revised memorandum on 18 November 2005 which included CESR's definition of EPM. CESR has stated that EPM means investment decisions involving transactions that are entered into for one or more of the following specific aims:

- The reduction of risk
- The reduction of cost
- The generation of additional capital or income for the UCITS with an appropriate level of risk taking into account the risk profile of the UCITS as described in the fund's prospectus and the general provisions of the UCITS Directive.

Under UCITS III, a fund may now invest in FDI, subject to certain conditions. They are required however to clearly disclose the intention behind permitted transactions. The Financial Regulator therefore accepts references to the use of FDI, in the section on EPM, using the terms above.

DRAFT GUIDANCE NOTE 3/03 UCITS - FINANCIAL DERIVATIVE INSTRUMENTS

In September 2005 the Financial Regulator issued a draft Guidance Note 3/03 for consultation entitled '*Undertaking for Collective Investment in Transferable Securities (UCITS) Financial Derivative Instruments.*' The Guidance Note is intended to clarify the treatment of financial derivatives instruments in UCITS, in particular how the risk management controls and limits are understood, implemented and documented, and to ensure that there is a greater understanding of the requirements of the Regulator.

The note covers the following four main areas, detailing the documentation requirements within the risk management process and the criteria that the Financial Regulator will look at in assessing methodologies:

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



- Global exposure and leverage

The note specifically mentions Relative VaR, Absolute VaR, VaR Haircut, Tracking at Risk and Tracking Error Volatility as proposed methods of risk measurement for sophisticated UCITS.

- Counterparty exposure.

In particular, the criteria that a UCITS will adopt in selecting counterparties must be clearly documented in the Risk Management Process.

- Reporting requirements.

The note gives details to be included in the annual financial derivatives instruments report to be submitted to the Financial Regulator for periods commencing 1 January 2006.

- Disclosure requirements.

In relation to Efficient Portfolio Management, the note requires that the prospectus details exactly the instruments and/or strategies that the UCITS may utilize. For FX transactions, the intention behind the use of FX transactions must be clearly outlined in the investment policy of the prospectus.

The closing date for comments was 28 October 2005.

PUBLICATION OF PRICES

On 8 December 2005, the Financial Regulator issued amendments to its policy on the publication of prices for funds. The amendments state that funds which are listed on the Irish Stock Exchange may publish prices on the official website of the Exchange in accordance with the following conditions:

- Dealing prices must also be available from the office of the fund, its manager or administrator
- Dealing prices posted on the internet must be up-to-date

The prospectus must provide information in relation to the publication policy adopted by the fund.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



The Financial Regulator has also clarified that it is not necessary for money market funds with constant net asset values to publish prices either in a newspaper or on an official website provided all investors receive daily information in relation to yield.

REVISED NON-UCITS AND UCITS APPLICATION FORM AND GUIDELINES

On 3 August 2005, the Financial Regulator issued new revised forms and guidelines for the Non-UCITS Application Form and Investment Manager/Adviser Appointments - Application Form.

This was followed on 26 August 2005 by a revised UCITS Application Form and guidelines which generally brought the UCITS application form in line with the revised Non UCITS application form. These amendments were facilitated through close contact and assistance from the funds industry and the DFIA.

The revised guidelines state that the Financial Regulator will not review the Memorandum and Articles of Association, the management, the administration/transfer agent, investment manager/adviser, or the distribution/paying agent/representative agent agreements in advance of the authorization/approval of the UCITS/non- UCITS/ sub-fund. The guidelines also highlight the information that is required to be submitted to the Financial Regulator at the various stages of the new application process.

Proposed Notice amendments issued on 20 July 2005 which reflect the Investment Funds, Companies and Miscellaneous Provisions Act 2005 are currently under consultation. The Financial Regulator has stated that the new application form will be updated to reflect this finalised position. There are also implications for the application form in context of closed ended collective investment scheme/sub-funds arising from the implementation of the Prospectus Directive. These will also be addressed and incorporated at a later stage.

The new application processes are expected to ensure greater efficiency in the application process in general.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



Guidance Note on the Simplified Prospectus

The Financial Regulator issued *Guidance Note 1/05 on the Publication of a Simplified Prospectus*. Since 30 September 2005, all UCITS funds have to publish a simplified prospectus. The note provides guidance on the publication of a simplified prospectus and the information required to be included. It also provides a template document outlining the format and content of the simplified prospectus.

The Financial Regulator has also updated *UCITS Notice 8* to include the requirement to supply a simplified prospectus.

DFIA INITIATIVES

(1) Property Funds

During 2005, the DFIA engaged in a consultation process with the Financial Regulator regarding possible amendment to the current rules relating to property funds.

(2) Self-Managed Investment Companies

The DFIA has been involved in a detailed consultation process with the regulator on the organisation structure for a self-managed investment company.

(3) Custody in relation to financial derivative instruments

Following on from on-going discussions with the Financial Regulator regarding custody of financial derivative instruments, the regulator has indicated that it wishes to explore the circumstances where assets might be registered in a name other than the custodians or the custodian-fund. In December, the DFIA provided further information to the regulator on this issue.

(4) Guidance Note 1/00 – Valuation of Assets of collective Investment Schemes

In December 2005, the DFIA wrote to the Financial Regulator regarding the above guidance note and in particular, the valuation of off-exchange derivative contracts. It was noted that these types of instruments are becoming increasingly popular investments for Irish funds. As a result, the DFIA has proposed that the guidance note be amended to allow an alternative method of valuation of these contracts so that independent third parties could also provide a valuation.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



(5) Green Paper on the enhancement of the EU framework for Investment Funds
The DFIA, after participating in the Open Hearing in October, submitted its response to this paper in November 2005

(6) Revised draft UCITS Notices and NU Series of Notices.
The Financial Regulator had sought the views of the DFIA on the revised notices amended to reflect the provisions of the Investment Funds, Companies and Miscellaneous Provisions Act 2005. The DFIA responded on 16 November 2005.

(7) 'Recent Developments in Financial Reporting Standards – Implications for Investment Funds'
The DFIA's Technical Committee published a detailed briefing paper on the above in December 2005.

(8) Anti-Money Laundering
As a result of the Criminal Justice (Terrorist Offences) Act 2005, the DFIA's existing industry paper "*Procedures to prevent money laundering in funds administered by a member of the DFIA*" was revised. The revision dealt with the requirement of fund administrators to have procedures in place to facilitate the detection of terrorist financing.

(9) Common Contractual Fund (CCF)
A template deed of constitution for a CCF was agreed with the Financial Regulator.

(10) Consultation on Competence and Probity of Directors
In June 2005, the DFIA responded to the regulator's consultation paper on new standards of competence and probity for directors and managers of financial services firms. The original deadline for the consultation paper had been extended to the end of June 2005.

(11) CESR's advice on 'eligible assets'
In June 2005, the DFIA submitted its response to CESR on its first consultation paper on clarification of the definition of 'eligible assets' and its second in October 2005.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



(12) New Accounting Standards

In December 2004, the Accounting Standards Board issued a number of new accounting standards which were applicable to all listed entities from 1 January 2005. In June 2005, the DFIA wrote to the Stock Exchange and the Financial Regulator highlighting certain difficulties with these new standards and confirming that, subject to appropriate disclosure, some interim accounts will not reflect the new standards.

(13) Appointment of collateral agent as sub-custodian

In May 2005, the DFIA received the regulator's approval to allow Irish funds to enter into tri-party repurchase agreements within Euroclear Bank, where the collateral under the agreement will be registered in the name of Euroclear Bank. Further negotiations are being held about situations where the collateral is being held otherwise than with Euroclear.

(14) Investment in limited partnership

In May 2005, the Financial Regulator also agreed to allow a fund invest in a limited partnership where the fund is named and registered as the limited partner (subject to conditions) as opposed to the previous requirement that the trustee be named and registered as the limited partner.

LEGISLATION

INVESTMENT FUNDS, COMPANIES AND MISCELLANEOUS PROVISIONS ACT 2005

This Act was signed into law on 30 June 2005. It introduces a number of significant changes into Irish fund law including the introduction of the following:-

- a non-UCITS Common Contractual fund
- segregated liability for sub-funds of investment companies
- permitted cross investment between sub-funds of investment companies
- providing flexibility to Irish collective investment schemes regarding the appropriate accounting standards to be used. These standards include Irish, UK, Japanese, US, Canadian GAAP and/or IFRS.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



MARKET ABUSE

This Directive came into force by statutory instrument on 6 July 2005. The Financial Regulator has been appointed the competent authority for the purpose of the Directive. A new 'Markets Section' has been established within the existing Securities and Exchanges Supervision Department of the regulator in order to implement the Directive.

The objective of the Directive is to ensure the integrity of the financial markets and to enhance investor confidence in those markets. The Directive seeks to achieve this by prohibiting insider dealing and market manipulation. It also imposes obligations on certain types of issuers, those involved in the management of such issuers, persons professionally arranging transactions and persons, including the media and journalists, involved in the preparation and dissemination of recommendations.

In July 2005, the Financial Regulator issued its 'Market Abuse Rules' which took immediate effect.

PROSPECTUS DIRECTIVE

This Directive was also brought into force by statutory instrument on 1 July 2005. Again, the Financial Regulator has been appointed the competent authority for the purposes of the Directive. As with the Market Abuse Directive, the practical implementation of the Directive will be dealt with by the 'Markets Section' in Securities and Exchanges Supervision.

The aim of the Directive is to ensure investor protection and market efficiency. The Financial Regulator has delegated certain tasks relating to the scrutiny of prospectuses to the Irish Stock Exchange. However, approval of a prospectus rests with the Financial Regulator.

Under the Directive, persons who make an offer of securities to the public or seek admission of securities to trading on an EEA regulated market must publish a prospectus which is subject to prior approval by the relevant regulator.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092



In July 2005, the Financial Regulator issued interim rules on the Directive, known as the 'Prospectus Rules'.

THIRD ANTI-MONEY LAUNDERING DIRECTIVE

This Directive entered into force on 15 December 2005 and will need to be implemented in Ireland by 15 December 2007. The Directive applies to the financial sector as well as lawyers, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of €15,000. Those subject to the Directive will need to:

- identify and verify the identity of their customer and of its beneficial owner, and to monitor their business relationship with the customer
- report suspicions of money laundering or terrorist financing to the public authorities and
- take supporting measures, such as ensuring a proper training of the personnel and the establishment of appropriate internal preventive

The Directive introduces additional requirements and safeguards for situations of higher risk (e.g. trading with correspondent banks situated outside the EU).

For the sake of clarity, the existing 1991 Directive, as amended in 2001, will be repealed and replaced by this Directive, upon its effective entry into force.

TAXATION OF SAVINGS DIRECTIVE

This Directive had been transposed into Irish law by means of statutory instrument. On 28 June 2005, amending regulations issued from the Minister. These amendments essentially ensure that the Directive will apply to interest payments made from Ireland to individuals resident in the dependent and associated territories of the UK and the Netherlands which have put in place arrangements to ensure either exchange of information on an automatic basis or that withholding tax will apply to interest payments made from those territories to Irish residents from 1 July 2005.

For further information regarding the Irish Funds Industry, contact the DFIA at:

Email
Web
Tel.
Fax

dfia@dfia.ie
www.dfia.ie
+ 353 1 670 1077
+ 353 1 670 1092

