



Ireland: Opportunities for Middle Eastern Fund Managers

MIDDLE EAST

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IRISH FUNDS
INDUSTRY
ASSOCIATION

Overview of the Irish Funds Industry

Ireland is the jurisdiction of choice for internationally distributed investment funds, used as a gateway by the world's leading fund promoters to establish and service investment funds which are sold to investors across the globe. Home to 66 world-class fund service providers with a support structure of over 11,000 industry professionals, Ireland offers the widest range of expertise in fund domiciling and servicing. Fund promoters are attracted to Ireland's robust and efficient regulatory and tax environment, wide range of specialist expertise, high quality business-friendly environment and the ease of global distribution offered by an Irish fund platform.

A Robust Regulatory Environment

Since its inception as a centre for investment funds Ireland has positioned itself as a location for the establishment of regulated investment funds. As investors seek greater transparency from investment products and as regulatory requirements on investment funds increase Ireland has the product offering to suit this growing need. The two most popular regulated products in Ireland are UCITS and the Qualifying Investor Fund (QIF).

The Centre for Global Distribution

As a major global distribution centre for UCITS and other funds Ireland provides an excellent base for Middle Eastern fund managers seeking to expand their business into Europe and the Far East. More than 850 fund promoters from over 50 countries have chosen Ireland as the location to domicile and/or service their funds including promoters from Kuwait, Lebanon, Saudi Arabia and the United Arab Emirates.¹ Irish funds are distributed to 70 countries worldwide including Islamic fund markets such as Bahrain, Indonesia, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

The Most Favourable Tax Environment for Investment Funds

Ireland offers a highly efficient, clear and certain tax environment for investment funds. The Irish tax system is simple for international investors - no Irish tax if you are not Irish resident. The tax efficiency of Irish investment funds is further enhanced by access to Ireland's double taxation treaty network which extends to 60 countries.

At 12.5%, Ireland offers the lowest headline corporate tax rate in the OECD which is attractive to service providers, management companies and investment managers seeking to establish operations in Ireland.

¹ Lipper Fund Ireland Encyclopaedia, 2010

Global Distribution of Irish Funds

Source: Lipper FMI & IFIA, 2010



GLOBAL DISTRIBUTION

Europe

Austria
Belgium
Channel Islands
Cyprus
Czech Republic
Denmark
Finland
France
Germany
Gibraltar
Greece
Hungary
Iceland
Ireland
Isle of Man
Italy
Liechtenstein

Luxembourg
Malta
Monaco
Netherlands
Norway
Poland
Portugal
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
United Kingdom

Americas

Argentina
Bahamas
Bermuda
British Virgin Islands
Canada
Cayman Islands
Chile
Columbia
Mexico
Panama
Peru
Philippines
USA

Asia & Pacific

Australia
China
Hong Kong
India
Indonesia
Japan
Korea
Macau
Malaysia
New Zealand
Singapore
Taiwan
Thailand

Middle East

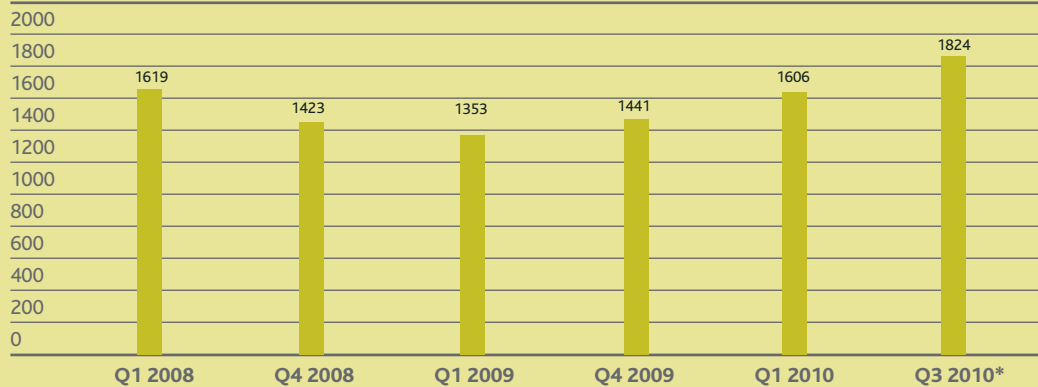
Bahrain
Israel
Kuwait
Oman
Qatar
Saudi Arabia
United Arab Emirates

Africa

Egypt
Mauritius
South Africa

Total Assets under Administration

EUR Billion



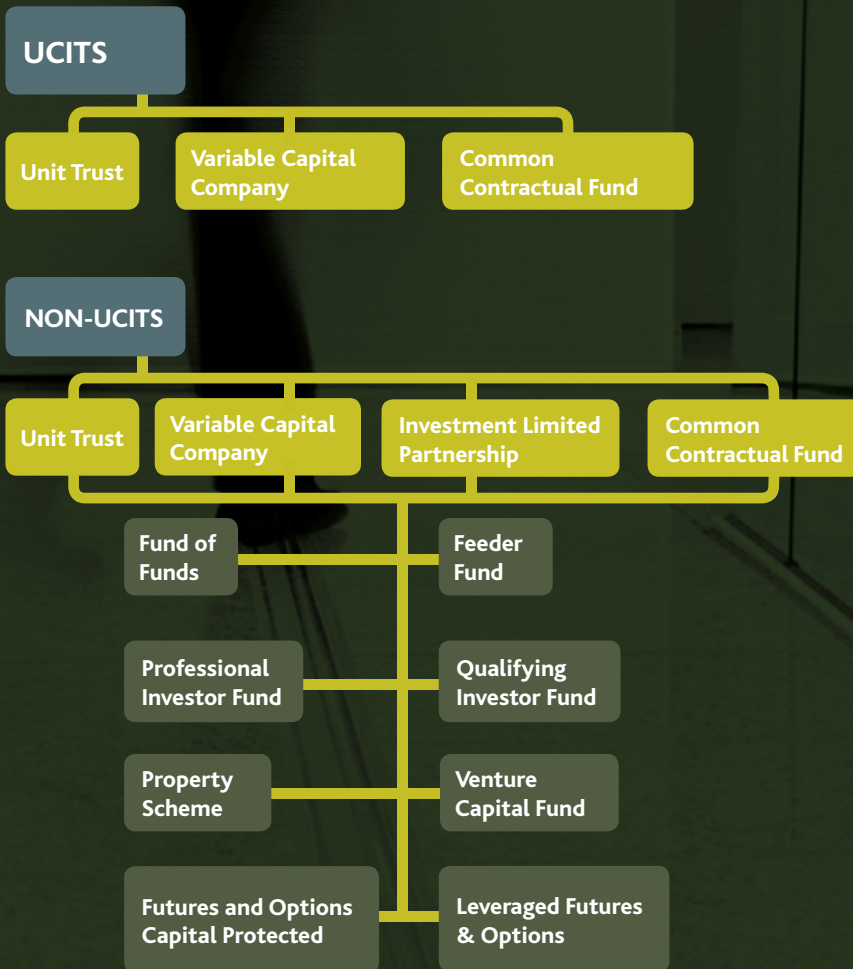
Source: Central Bank of Ireland & IFIA * Based on Q2 data for non-domiciled funds

Regulatory Framework in Ireland

Founded on the principles of openness, transparency and investor protection Ireland's regulatory environment is internationally recognized as pragmatic and governed by an approachable Central Bank that is willing to meet clients and work through any issues. Furthermore, the Central Bank takes a proactive, constructive approach to regulating the environment for investment funds and is willing to listen to the concerns of the industry and work in partnership to find regulatory solutions that allow for new market and product developments.

Ireland offers a wide range of fund structures to suit all requirements. In addition to retail UCITS funds Ireland offers non-UCITS regulated funds, such as the Qualifying Investor Fund, which provide greater investment flexibility for sophisticated investors. Irish funds are most commonly set up as companies and unit trusts but can also be structured as investment limited partnerships or as Common Contractual Funds (CCFs) to facilitate tax transparent asset and pension pooling.

Investment Structures



Approval in Ireland

Investment funds seeking to domicile in Ireland must obtain authorisation from the Central Bank and undergo a two stage process in which the promoter and the fund itself, including details of the service providers, are approved. The Central Bank will only consider approval of the fund once the promoter approval has been granted, which must be taken into consideration in terms of timing. However, if a promoter is authorised in another jurisdiction and meets the principal criteria required by the Central Bank, the Central Bank will undertake the fund approval process in parallel with the promoter approval.

The Central Bank provides standard application forms for the approval of the fund, promoter and the fund's investment advisor/manager on its website at www.financialregulator.ie

1 Promoter Approval

The promoter is the party responsible for lodging the application for fund authorisation with the Central Bank and will appoint a legal/regulatory counsel to draw up the agreements establishing the fund, liaising with the Central Bank throughout the course of the authorisation process. A fund promoter can be the same entity as the investment manager. To obtain promoter approval, a promoter must submit a standard application providing details of:

- » The type of funds it intends to promote
- » Shareholders holding 10 per cent or more (whether directly or indirectly) of the capital or voting rights of the promoter
- » Background description of the applicant
- » The value of assets under management and the number of clients
- » Latest audited financial statements
- » Regulatory status in applicant's domicile country
- » The proposed service providers
- » Proposed distribution network for retail funds only
- » Proposed intention of promoter to act as investment manager/advisor to the proposed fund
- » Any other relevant information
- » References

The Central Bank must be satisfied as to the promoter's expertise, integrity and adequacy of financial resources and the promoter must have minimum shareholders' funds of €635,000. Fast track approval of one week is available for fund promoters.

2 Fund Approval

Once the promoter and investment manager have been approved, the next step is approval of the fund documentation. To obtain approval, the promoter of an investment fund must submit a standard application to the Central Bank comprising of the following information:

The proposed name of the fund

A draft of (a) the memorandum and articles of association or (b) the trust deed or (c) the partnership agreement, a draft prospectus, incorporating the Central Bank's requirements (depending on whether it is a non-UCITS fund, retail fund or a fund for sophisticated investors)

Details of the custodian/trustee and management company (if applicable) and administration company (if applicable)

Details of the proposed directors of the fund (if an investment company, including their curriculum vitae)

Details of the investment manager, advisor, distributor or placing agent of the fund

Details of all agreements entered into by the fund, including investment management/advisory agreements, management agreement, administration and distribution agreements

Details of the fund and company secretary (company only)

An application for authorisation of an investment fund is made by lodging fund documentation, in draft form, with the Central Bank. QIFs can be authorised within 24 hours while other funds can typically be approved within six to eight weeks.

UCITS Funds

Ireland is a leading centre for internationally distributed UCITS funds, the globally recognised European fund product that has become the universal standard for regulated investment funds. Irish authorised UCITS account for over 80 per cent of the assets of all Irish domiciled funds and are distributed in over 60 countries. UCITS can be marketed to both retail and institutional investors. The UCITS structure is one of the most commonly used for many different types of Islamic funds including retail Islamic equity funds, Shari’ah compliant money market funds and Shari’ah compliant exchange traded funds (ETFs).

What are UCITS?

Undertakings for Collective Investment in Transferable Securities (UCITS) are a harmonised European retail fund product that can be sold globally and within the European Union on a passporting basis. UCITS offer a robust and consistent level of investor protection and regulatory compliance combined with a high level of acceptance by regulators worldwide.

UCITS are subject to detailed rules in relation to eligible assets, exposure concentration, diversification, risk management and disclosure. The rules governing UCITS are set out in the Central Bank’s UCITS Notices available at www.financialregulator.ie

UCITS fund types

Equity
Bond
Money Market
Multi-manager
Index Funds
ETFs
Fund of Funds
REITs
Securitised/
Structured Products

Why domicile a UCITS in Ireland?

80% of Irish domiciled funds are UCITS
Ireland is the fastest growing cross-border UCITS domicile¹
Unrivalled expertise in servicing all types of investment strategies
Robust, constructive regulation driven by an approachable, pragmatic Central Bank
Over 20 years of experience as a fund administration centre
Responsibilities of the trustee – providing an extra level of investor protection
Comprehensive Legal, product, tax and audit expertise

Benefits of UCITS:

UCITS - global brand distributed in over 60 countries
Transparent, tried and tested regulation
Focus on risk management and investor protection
Continuous evolution – UCITS I/UCITS III and UCITS IV (2011)

¹ Based on statistical data from the EFAMA Quarterly Statistical Release, Quarter 3 2010

UCITS IV

The regulatory framework for UCITS has been updated in various stages since their inception in 1985. UCITS IV, the most recent package of measures, is aimed at increasing efficiencies in the cross-border management and distribution of UCITS funds enabling fund managers to generate savings through consolidation and economies of scale. With a target implementation deadline of July 2011, UCITS IV provides for:

- » Centralised delivery of fund products (versus regulated entities in each local jurisdiction) through the Management Company Passport
- » Streamlined administration of cross-border distribution
- » International fund mergers facilitating cost efficiencies
- » Master-Feeder structures – leading to greater pools of assets (economies of scale)
- » Key Investor Information document
- » Enhanced cooperation mechanisms between national supervisors

The Qualifying Investor Fund (QIF)

With approximately €130 billion in assets, the Irish Qualifying Investor Fund (QIF) is a well established, regulated investment fund vehicle that addresses the flexibility and speed to market requirements of sophisticated investors.

The QIF is a specialist investment fund targeted at sophisticated, qualifying institutional investors, who must meet minimum subscription and financial resources requirements. The main advantage of the QIF is the removal of the Central Bank's general conditions relating to investment policies and borrowing, thereby enabling sophisticated investors to use this structure for a wide range of investment strategies. As such, the QIF offers excellent flexibility in terms of the range of eligible assets and is the preferred structure used in the regulated alternative investment sphere. Some of the many different types of funds that can be structured as a QIF include:

- » Alternative Investment Funds, including Hedge Funds
- » Sovereign Wealth Funds
- » Property / Real Estate Funds
- » Venture Capital / Private Equity Funds
- » Emerging Markets Funds
- » Infrastructure Funds
- » Capital Protected or Guaranteed Funds
- » Single Country or Regional Funds
- » Single Asset Funds

Fast-track QIF Approval

Since February 2007 QIFs can be authorised by the Central Bank within 24 hours of receipt of completed documentation. In order to gain approval for a QIF the fund promoter must be authorised by the Central Bank. If the QIF is filed no later than 3pm on the day before the proposed date of authorisation, it will be authorised by close of business on the day of authorisation, provided that all the documentation is in order. The key requirements of a QIF have recently been brought into line with the requirements of the AIFM Directive:

- » To qualify as a QIF, a fund must have a minimum initial subscription requirement of €100,000 per investor, or equivalent in other currencies.

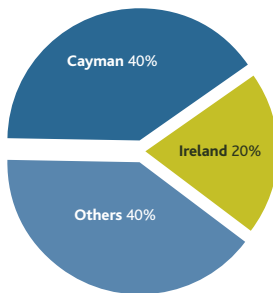
Qualifying Investors

- » (a) An investor who is a professional client within the meaning of Annex II of Directive 2004/39/EC (Markets in Financial Instruments Directive); or
- » (b) An investor who receives an appraisal from an EU credit institution, a MiFID firm or a UCITS management company that the investor has the appropriate expertise, experience and knowledge to adequately understand the investment in the scheme; or
- » (c) An investor who certifies that they are an informed investor by providing the following:
 - Confirmation (in writing) that the investor has such knowledge of and experience in financial and business matters as would enable the investor to properly evaluate the merits and risks of the prospective investment; or
 - Confirmation (in writing) that the investor's business involves, whether for its own account or the account of others, the management, acquisition or disposal of property of the same kind as the property of the scheme.

The rules governing QIFs are set out in the Central Bank's Non-UCITS Notice NU 24 available at www.financialregulator.ie

Islamic Funds in Ireland

Key Islamic fund domiciles outside of the Middle East - Market Share



Source: PwC, September 2009

Ireland is highly proactive in the Islamic finance space from a tax, regulatory and service provider perspective by working on ensuring that it is an attractive location for Islamic funds. It comes as no great surprise that 20% of the Islamic funds market outside the Middle East is already located in Ireland.

Central Bank Approval Process for Islamic Funds

In light of the growing interest in Shari'ah funds, in October 2008 the Central Bank announced the establishment of a dedicated Shari'ah Funds Specialist Unit. This specialist team ensures that regulatory applications involving Shari'ah funds are handled with consistency and efficiency. The Irish Central Bank is committed to working with its regulatory counterparts in the Middle East, North Africa and Asia in order to develop an understanding of their respective regulatory systems to facilitate the approval process of Shari'ah fund promoters.

The establishment of the Shari'ah funds unit has certainly added to Ireland's attractiveness as a domicile for Shari'ah funds. To meet with increasing demand in this growth area, many of the accountancy and legal firms aligned to the Irish funds industry have also established Shari'ah specialist teams.

The Central Bank established a dedicated Shari'ah Funds Specialist Unit in 2008



Shari'ah Board

One area that the Central Bank will look at is the role of the Shari'ah Board and the capacity in which it acts and will require confirmation that the Shari'ah Board is acting in an advisory capacity only with no discretionary powers over the assets of the fund. If acting in an advisory capacity only, the Central Bank will not seek to regulate or approve the Shari'ah Board.

The contract appointing the Shari'ah Board will usually constitute a material agreement which should be disclosed in the prospectus and filed with the Central Bank. In addition if the fees of the Shari'ah Board are being paid directly out of the assets of the fund, details of these fees must be disclosed either in the fund's prospectus or in the relevant advisory agreement.

Shari'ah Investment Restrictions

Another relevant area to consider is whether the Central Bank imposes any conditions or requirements on the Shari'ah element of the fund. In general, the Central Bank will not seek to impose any oversight of the Shari'ah element as that is really the embodiment of a set of guiding principles, investment philosophy or investment guidelines. From a regulatory perspective, the Shari'ah element is viewed very much as an overlay comparable to a fund established with a "socially responsible" investment ethos. The Central Bank will be concerned with ensuring that the statements of policy and principle are transparent and clear and that the offering document is drafted in such a way that investors are able to clearly understand the basis on which they are investing. Typically, the Irish regulatory authority will be focusing on issues such as the suitability and expertise of the entity carrying out the asset management.

Monitoring of Compliance

Another issue to consider in the context of a Shari'ah Fund is the monitoring of compliance with Shari'ah principles and how and by whom the monitoring functions will be carried out. To a large part, this will depend on how the legal documents are drafted. For example, in most cases, the Shari'ah element would be stated as guiding principles and investment guidelines rather than as investment restrictions.

However if, for example, there was a statement in the prospectus that no more than 10% of the net assets of the fund may be invested in banking stocks, this might well fall within the ambit of an "investment restriction" and would need to be monitored in the same way as any other investment restriction would be. The monitoring role for compliance with Shari'ah law would usually be provided by the Shari'ah Board and/or the investment manager, although specific advice would need to be sought depending on the construction of the legal documents.

Irish Tax Certainty for Shari'ah Funds

A briefing on Islamic finance issued by the Irish Revenue Commissioners in October 2009 confirmed that Shari'ah funds can be accommodated within the existing tax framework. As such, Irish domiciled Shari'ah funds can avail of the favourable tax treatment offered by Ireland, including no tax on the fund's income or gains, no net assets tax, no withholding taxes on distributions to non-Irish residents and no stamp duty.

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Excellence

Unrivalled expertise and experience in establishing and servicing funds with the widest range of investment strategies, our professional, can-do and pragmatic approach will make the difference. A robust regulatory environment that has provided the template for openness, transparency and product development while setting the standard for efficiency, certainty and accessibility.

Innovation

At the forefront of thought leadership and innovation, devising product solutions through responsiveness and adaptability to client needs. Leading the drive for greater efficiencies through fund processing automation and at the forefront in preparing for and reacting to regulatory developments.

Reach

Home to the world's major fund promoters and fund service providers with distribution opportunities to the widest range of market places. Internationally recognized with an extensive network of tax treaties and regulatory agreements and the leading centre for the listing of investment funds.

The experience, scale and global reach of a leading international fund jurisdiction together with the innovation, thought leadership and vibrancy that got us here!

Ireland *knows* Investment Funds.

That's why! Ireland

About the IFIA

The Irish Funds Industry Association (IFIA) is the representative body for the funds industry in Ireland with administrators, custodians, managers, transfer agents, fund promoters and professional advisory firms involved in the international fund services industry in Ireland, amongst its members.

The objective of the IFIA is to support and complement the development of the international funds industry in Ireland, ensuring it continues to be the location of choice for the domiciling and servicing of investment funds. Through its work with governmental and industry committees and working groups, the IFIA contributes to and influences the development of Ireland's regulatory and legislative framework. The IFIA is also involved in defining market practice through the development of policy and guidance papers and the promotion of industry-specific training.

For further information and a full list of IFIA members' contact details and services provided, please log onto www.irishfunds.ie

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