Ireland after Brexit

Ireland and Dublin lay out their post-Brexit credentials

The impact of Brexit on Ireland is likely to be mixed. While Ireland’s exposure to the UK has led the government to revise its forecasts for GDP growth down in 2017, some areas of the economy look well positioned to flourish in the post-Brexit era, most notably financial services.

Following the triggering of Article 50 by the UK government, representatives from the public and private sector gathered in Dublin in early May to discuss the longer-term prospects for the Irish economy and the financial services industry.

Participants in the roundtable were:

- **Michael Cullen**, CEO, Investec Ireland
- **David Dalton**, consulting partner, financial services industry leader, Deloitte, Dublin
- **Susan Dargan**, executive vice president and co-head of global services, EMEA, State Street
- **Kieran Donoghue**, head of international financial services, IDA Ireland
- **Kieran Fox**, director of business development, Irish Funds Industry Association
- **Joan Kehoe**, global head, alternative investment services, JP Morgan, Dublin
- **Denis McCarthy**, CEO, FEXCO
- **Eoghan Murphy**, minister of state, Departments of Finance and Public Expenditure & Reform, Government of Ireland
- **Meliosa O’Caoimh**, senior vice president, global fund services, Northern Trust
- **Richard Walsh**, CEO, Fintech & Payments Association of Ireland
- **Phil Moore**, moderator, *GlobalCapital*

*Ireland in the Global Capital Markets* *GlobalCapital* 1

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**GlobalCapital**: Central Bank deputy governor Sharon Donnery has said she expects the impact of Brexit on the Irish economy to be “negative and material”. Minister Murphy, how negative, and how material is the impact of Brexit likely to be?

**Eoghan Murphy, Department of Finance**: Our close trading relations with the UK mean we are uniquely exposed in particular sectors. Agri-food production is one example, because in some areas, such as mushroom rooms, 100% of our exports go to the UK.

So until there is a free trade agreement, or until there is certainty around what a trade deal will look like, it will be difficult to assess the likely impact of Brexit on the Irish economy.

Immediately after the announcement of the UK referendum, the Department of Finance, together with an independent think tank, began to draw up contingency planning for each sector in the event of a decision by the UK to leave the EU. So we’ve been preparing for this since 2015.

After the Brexit decision had been made, one of the first things we did was to look again at our GDP forecasts, which we revised down by about half a percentage point to 3.5% for 2017 to recognise that there might be some immediate negative impact, particularly in the exporting sector. The data for this year so far suggests that this revision may have been too conserva-
tive, with recent indicators suggesting that we may be looking at growth of 4% or 4.1% in 2017.

We have also announced a series of initiatives to ensure we future-proof recent gains in the economy. Those gains have been impressive. For the third year in a row we will probably be the fastest-growing economy in the eurozone in 2017, and for 17 consecutive quarters we have seen employment growth across every sector and in every region.

We want to protect these gains, which is why in the budget for this year we announced the establishment of a €1bn rainy day fund from 2018. We also set a lower debt to GDP target as recommended by EU rules, and we extended initiatives such as the schemes to support companies diversifying into foreign markets and to help attract foreign talent at a high level into Ireland.

We decided last year to add about €5.6bn to our capital spending plan between now and 2021. We’re currently reviewing this plan to ensure we’re spending it prudently, not just because of Brexit but also in response to other developments that may happen across the world.

GlobalCapital: How has the Brexit vote affected the political relationship between Ireland and the EU?

Murphy, Department of Finance: We have seen stronger support for the EU project over the last 12 months. Even when you factor in the possibility of a hard Brexit, support for the EU across the population is well over 70%.

Partly in response to the Brexit vote, we are now re-evaluating our relationship with Europe to make sure we are leading from the front on those issues that are important to us.

The EU project has been based on constant reform, which needs to continue. The economic crisis gave us the impetus to reform financial markets, but there is other work that now needs to be done in terms of social inclusion, ensuring that institutions in Europe are democratically accountable and that individuals have a personal as well as an economic investment in the project.

Keiran Donoghue, IDA: It’s important not to view the prospects for the Irish economy purely through the lens of Brexit. Pre-Brexit, the economy has been doing remarkably well for a number of years, in terms of GDP growth, declining unemployment, improving credit metrics and so on.

As Minister Murphy said, last year we were the fastest-growing economy in the EU, with a GDP growth rate of over 5% and an unemployment rate of 6.5%, down from a high of 15%. In 2016, IDA posted a record year in terms of inward investment, with close to 250 individual investments, 12,000 net new jobs, and 100 of what we call new-name investors that had no previous presence in the jurisdiction. That’s a very impressive performance, and we are cautiously optimistic that we can maintain it into the future.

That said, Brexit will have an impact. The UK is a major trading partner and there are a number of sectors of the Irish economy with significant exposure to the UK. Most of that exposure is on the indigenous side, and clearly tourism could be affected by the performance of sterling.

We are realistic about the potential impact of Brexit, which is why the forecasts for the economy are mixed. We’ll have to wait and see how the indigenous, Irish-owned sectors respond to the challenges created by Brexit. There may be an opportunity to compensate for any losses on the domestic side by attracting additional inflows of inward investment.

I would take comfort from the recent announcement by the European authorities that they are alert to the special relationship between Ireland and the UK. Hopefully we can negotiate an arrangement that preserves the common travel area, and the UK will strike a free trade agreement with the EU that will preserve some of the benefits and the uniqueness of the relationship between Ireland and the UK.

GlobalCapital: FEXCO is an example of a company that has already made an acquisition in the UK driven by the opportunities arising from Brexit, hasn’t it, with your purchase last year of Cash-a-Cheque?

Denis McCarthy, FEXCO: Yes. One of our biggest businesses in the UK is our bureau de change operation, which is directly impacted by Brexit in terms of UK consumers’ travel decisions. We have made a number of acquisitions in the last 12 months as a result of our view that the travel patterns among UK consumers will be resilient, and that one of the last things to go for the
British public will be their foreign holidays. At the same time, the weakness of sterling has made it cheaper for companies from the eurozone to make acquisitions in the UK.

My long-term view on the UK is positive. You only need to travel to the UK to see that it remains a very strong economy.

Michael Cullen, Investec: I agree that we perhaps overstate the immediate impact of Brexit.

The SME sector has been affected, but this has been driven mainly by the weakness of sterling last year. It is the exchange rate that has been the dominant influence on SMEs, which depend on the UK for about 40% of their trade, compared to closer to 14% for the Irish economy as a whole.

But the SME sector has now been living with the impact of Brexit for nine months, and it has proved remarkably resilient in areas like job creation and cost management. Its adaptability is the SME sector’s biggest advantage.

What Article 50 has done is put the egg timer on. We knew Brexit was coming, but now that the negotiating process has started, we need to start looking at things a little more urgently. This means that we now need certainty — not just on how negotiations will end but on what may be ruled out. It is the cost of covering the optionality arising from Brexit that is affecting all industries, including the SME sector and the financial services space.

GlobalCapital: What sort of feedback are you hearing from the US on the likely impact of Brexit on Ireland?

Susan Dargan, State Street: State Street sees Brexit as an opportunity for financial services building from the overall environment which has supported growth in the industry. We’re an English-speaking jurisdiction which observes common law, we have easy access to the UK and the US, and we have a young and flexible workforce. All of this has helped us to build up our international financial services capabilities over the last 20 to 30 years.

The view from the US is that this will be of great benefit when organisations are looking at where they may need to relocate as a result of Brexit.

Joan Kehoe, JP Morgan: It’s not the case that we’re suddenly saying that Brexit is coming and so we need to go out and tell Ireland’s story to the rest of the world. When the Irish Financial Services Centre (IFSC) was being set up in the 1980s, we were all telling the same story, which was based on Ireland’s young and well educated population.

Much has changed since then, but the benefits of the work that we all did 20 or 30 years ago have put us in a situation where there is no longer any question mark over what our capabilities are. There is no question mark over the talent that is available for investors building a business here, which is a big positive.

Conversations are very different from what they were in the 1980s, when we were asked if Ireland had the infrastructure and human resources to handle inward flows of new investment.

Meliosa O’Caoimh, Northern Trust: Ireland’s broad economy and its financial services sector are two separate stories. In the financial services industry, we are more or less cocooned from the local economy.

That said, we need to differentiate between the immediate and the longer-term view. I think we’d be foolish not to acknowledge that Britain’s exit from the EU transfers a lot of power to mainland Europe, and both Ireland and the UK need to work hard to ensure we don’t become marginalised in the process.

David Dalton, Deloitte: It’s worth re-emphasising that there is a risk that Brexit takes too much of a centre stage. There are other challenges that the resurgent Irish economy will face going forward. One of these is the US political environment. This obviously has implications for foreign direct investment, which has been a major driver of the recovery in the Irish economy.

Clearly, our corporation tax is one of the features that has made Ireland an attractive location for foreign companies, but this has also given rise to controversy around Base Erosion Profit Shifting (BEPS) and how this might affect Ireland’s tax positioning going forward.

O’Caoimh, Northern Trust: Tax regimes across the world are becoming quite disrupted already. It feels like there is a race to the bottom going on as regards tax rates. Let’s not fool ourselves, Ireland is a small player in this bigger tax battle where larger economies are trying to copy what Ireland has had in place for years. The important point though regarding the Irish tax rate is certainty and transparency, which is key.

GlobalCapital: How damaging would President Trump’s tax proposals be for investment flows into Ireland?

Donoghue, IDA: The US tax agenda is very light on detail. With regard to the recent announcement about a 15% rate of corporation tax, I think there are questions marks over whether this is feasible, either financially or politically. We’ve already had discussions with senior tax counsellors in the US who have said that the plans are aspirational and will be challenging to deliver.
We don’t view the current situation in the US as a threat to FDI because US multinationals are exactly that — they’re multinational. They have a customer base outside the US, and we believe they will remain committed to the EU market and to their presence here. We don’t see them turning around and focusing solely on the US just because the new administration is promising to introduce a 15% corporation tax rate.

Keiran Fox, Irish Funds Industry Association: I don’t think Brexit changes the underlying, positive narrative that we have been telling in Ireland in general, and in financial services specifically, for more than 15 or 20 years. When you look at the economy as a whole, it is true that there will be some pockets of activity that will be impacted more than others. Agri-foods and manufacturing, for instance, are two areas that could potentially be more impacted because of our exports to the UK. But I think the immediate impact, as highlighted by Michael, is the exchange rate. The fact that the ECB is still in an accommodative, quantitative easing phase ought to restrict any strong appreciation of the euro, which should be helpful for Ireland.

The government’s priorities will include the freedom of movement of people and maintaining the open border with Northern Ireland. But in terms of risk mitigation, we around this table and in the wider industry will look to implement strategies that portray Ireland as positively as possible for financial services because we have a very good story to tell.

Cullen, Investec: On the subject of financial services, we have a tendency to talk about the growth of the industry in an international context. But domestic financial services have not grown at the same pace. As a result, one of the biggest issues we now face is a shortage of competition in the domestic market. There have been no new entrants to the financial services industry in Ireland since before the crisis, and there are unlikely to be any newcomers in the near future.

In fact, Brexit will almost certainly make it uneconomical for a number of entities to operate in the domestic market, which means that this market could become far more concentrated among the major players. This is negative from the perspective of consumers, because it leaves pricing power in the hands of a very small number of institutions.

This is one of the macro issues that probably does not get sufficiently well addressed as we talk about the opportunities for Ireland to develop internationally. But competition in the domestic market is very important in terms of the consumer being given the best value for the delivery of financial services.

GlobalCapital: Richard, if competition for financial services is being eroded in the domestic market, doesn’t this create enormous opportunities for disruptive operators in the fintech space?

Richard Walsh, Fintech & Payments Association: For a long time, Irish banking was more or less a duopoly. One would expect that the emergence of digital banks, which are now being set up across Europe, may bring competition back into the market. But it is expensive for these new banks to build a competitive presence, so it will be interesting to see how many of those can put themselves on to a sustainable footing.

If the digital banks can reach this level, we should see some competition coming in which will encourage the domestic banks to up their game. But that may take some time.

Coming back to the strengths and diversification of the Irish economy, we have long since stopped being a one-trick pony around corporation tax, which has served us well. We have now developed a critical mass of talent which attracts new companies, which in turn add to the talent pool. As long as we can sustain that pool of talent, we will remain in a strong position.

I agree with the point that was made earlier about Brexit possibly acting as a canary in the coal mine with regard to the other challenges Ireland faces. One of these is Ireland’s dependence on English-speaking markets, which will have to change. Our two biggest markets are now going through a period of upheaval, which may make them more protectionist and inward-looking. So now is the time for Ireland to develop closer connections with Asia.

Donoghue, IDA: We recognise within IDA that we have had a tremendous dependence historically on the US for FDI, which is why we have made a formal commitment as part of our current strategy to diversify our sources of investment, and increase our focus on new growth markets, especially in Asia Pacific.

We have substantially increased our physical presence on the ground across Asia Pacific. We have three offices in China and two in India, and we have a presence in Singapore, Australia and Japan. We have created a dedicated growth markets team to target opportunities in Asia Pacific, which has been performing extraordinarily well. Levels of investment from non-traditional markets are increasing all the time.

In the context of Brexit, we have already attracted an unprecedented level of interest in the financial services industry from the Asia Pacific region, particularly from Japan. You may recall that the Japanese government was vocal in setting out its concerns about the UK’s decision to leave the EU, and we have seen considerable footfall in Dublin from Japanese financial services groups that are evaluating Ireland.
Ireland after Brexit

Prior to Brexit, Ireland in general, and Dublin in particular, was a very strong location for attracting people from technical as well as non-technical backgrounds. To give another practical example, we have a blockchain lab here which serves our European client base. Its team is made up of Spanish, Italian, Portuguese and German specialists. So I wouldn’t underestimate the appeal of Dublin for talented young people from throughout Europe.

Donoghue, IDA: It has been in a range of sectors. Indian investors see Ireland as a technology play. Chinese investors are attracted by a mix of opportunities in financial services and technology. Several Chinese banks have set up leasing operations in Ireland, and are now looking to build on that platform.

Kehoe, JP Morgan: Richard’s point about our dependence on the UK and the US touches on something that the government here has talked about for a long time, which is language and technology skills.

I’d be curious to know if others around the table believe we do enough in our schools and colleges to develop these skills. I would argue that we don’t do nearly enough to encourage the independent thinking that young people need to go out and build the next app. We don’t have enough of a focus on disruptive technologies, nor on language skills.

Dalton, Deloitte: I believe we have relied on the big multinationals to develop the skills you’re talking about. That has served us very well since the 1970s. Colleges are now taking a much closer interest in business, with Trinity College, for example, building a €1bn extension to its campus. I hope we will continue to see colleges working hand in hand with businesses.

Dargan, State Street: State Street can provide a good practical example of this, which is the technology centre we have set up in partnership with University College, Cork (UCC). We sponsor a Masters and PhD programme which is working on research on emerging fintech and practical applications for organisations such as State Street and our client base.

We have now linked this programme with a similar initiative we set up in China, so that the students at UCC and those at Zhejiang University are able to work together and frequently visit each other’s locations. UCC has a Chinese language course, while Zhejiang has an English language course as part of the programme. We’ll see more of this type of collaboration between industry and educational institutions, which will help companies to penetrate new markets in regions like Asia.

Murphy, Department of Finance: Prior to Brexit, there were two important initiatives underway to support the growth of financial services. The first was the creation of a Ministry of State responsible for financial services in 2014, which was a recognition of the importance of the industry to the Irish economy.

The second was the launch of a five year plan for the development of financial services in 2015. Working with the industry to implement that plan on a rolling annual basis has meant that we were ahead of the curve when the Brexit decision was made.

We have also been cognisant that as we came out of crisis and into the recovery, certain parts of the economy hadn’t benefited from the investment that was needed because we had to cut back on certain areas. One of these was infrastructure investment. We knew coming out of the recession that when we had the opportunity, in terms of the exchequer having the resources available, we would have to deal with certain capacity issues.

So before the referendum decision, more than €5bn was added to the capital spending plan, and a review of the plan was made to ensure it will be spent in a prudent way – be it on a second runway at Dublin Airport, building new bridges across the Liffey or opening new land banks for housing.

We had these plans in place well before Brexit, and as financial services continues to grow not just in Dublin but in other parts of the country, those plans and investments will come on line at exactly the right time.
GlobalCapital: Are infrastructural constraints one reason why firms like Northern Trust and State Street have established large operations in several Irish cities outside Dublin?

O’Caoimh, Northern Trust: Over the last 10 years we have built up a substantial presence in Limerick where we now employ over 1,000 people. In the first week of January alone this year we hired 40 new people there and we anticipate recruiting about 200 new people in Limerick in 2017 as a whole. We continue to attract really good local as well as global talent to Limerick. I agree that there are opportunities in Dublin, but I would also urge us all to look beyond Dublin. Ireland is a big enough country with plenty of room to expand elsewhere.

Kehoe, JP Morgan: That’s absolutely true. When I was at PFPC we were one of the first financial services companies to build an office in Wexford in the southeast, back in 2002. At the time we were given very little support from the government or IDA which was then very focused on developing the border midlands area.

Our experience was very similar to Northern Trust's in Limerick. We ended up with several hundred people in Wexford who were working in a very pleasant environment, and staff turnover was very low, so it worked extremely well. There are many advantages to looking outside of Dublin.

GlobalCapital: So financial services is very much an Irish rather than a Dublin-centric industry?

Murphy, Department of Finance: Yes. There are now just under 40,000 people working in international financial services in Ireland. About one-third of those jobs are located outside Dublin. And as we grow to 45,000 by the end of 2019, our commitment is at least to maintain that ratio.

Increasingly, initiatives are being made by cities like Cork, which is promoting itself as an alternative to Dublin for financial services. At the same time, a growing number of companies are showing an interest either in expanding existing operations outside Dublin, or establishing new activities beyond the capital.

This will help create high-value jobs throughout the country. When you align that with our new spatial planning out to 2040 and our infrastructure review to 2021, it means that we will be able to maximise the economic gains across the country.

O’Caoimh, Northern Trust: It’s not just financial services that should recognise the potential that exists outside Dublin. Most companies in the technology sector seem to want to be in Dublin. I understand the idea of having a hub here but for companies looking for sustainable growth, I would urge them to look at Ireland as a whole.

GlobalCapital: How do the costs of an operation in Dublin compare with those in, say, Limerick?

O’Caoimh, Northern Trust: Physical space is available at a lower cost outside Dublin, but I don’t think that is the main attraction for companies and employees to be based elsewhere. It’s more about developing a career, low staff turnover, quality of life and so on. It’s a much broader play than costs alone.

Susan Dargan
STATE STREET

Dargan, State Street: Locations across Europe all have their challenges. In Luxembourg, for example, the cost of living is relatively high.

We’re seeing more and more companies looking at alternative locations outside Dublin. For example, we have an operation in Drogheda, which gives us access to a pool of talent in north and south Ireland.

Donoghue, IDA: Part of the proposition for foreign direct investors is that opportunities are not just confined to Dublin. Financial services groups like Prudential have gone to the northwest region where they now employ more than a thousand people. Fidelity and MetLife, meanwhile, are developing technology for their businesses in Galway in the west.

Globally, investment tends to be very capital centric, but in Ireland over the last 30 years we have managed to encourage global groups to establish a footprint in locations away from the capital.

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GlobalCapital: Another challenge the financial services industry faces is the high level of personal taxes in Ireland.
Are there any moves planned to reform the tax regime in order to attract more professionals to the Irish financial services sector?

Murphy, Department of Finance: We’re very conscious of the burden of taxation in general on the Irish population. The number of jobs that were lost during the crisis created an additional burden on the exchequer in terms of jobseeker’s allowance. That burden had to be shouldered by those who were thankfully still in a job, which meant higher taxes for them and the introduction of new forms of taxation.

The government’s ambition is to continue reducing the burden of personal taxation and to bring it down ultimately to below 50% for every taxpayer in the country, but that has to be done in a prudent way over time as the resources allow.

Increasingly, the conversation is moving to using our taxation base to attract talented individuals rather than corporations. We introduced a new scheme a number of years ago to allow companies to bring high net worth individuals into the country on special tax conditions, so that their higher rate of tax would actually be lower in comparison to places like the City of London. In this year’s budget, we extended that scheme because we see it as an important part of future-proofing the economy.

We’re aware of the role this plays in decision-making for key individuals, because for every executive availing of this scheme three or four additional jobs are created.

In terms of promoting investment, we have repurposed the pension reserve fund to invest in Irish companies, which has been very successful to date, attracting a lot of co-investors and creating new opportunities.

But our main priority over the next 12-18 months will be maintaining competitiveness. Given the pressure that growth is likely to put on wages, we have to make sure that we stay competitive.

McCarthy, FEXCO: I agree that we need to remain competitive and avoid the vicious circle that we entered back in the early 2000s, when public sector pay rises triggered wage inflation in the private sector. This in turn led to the economic disaster we suffered in 2006 and 2007. So the most important challenge for the government over the next couple of years will be to manage the recovery carefully. This will then allow it to look at tax reform.

Kehoe, JP Morgan: To be fair, Enterprise Ireland has done a lot to encourage investment. It has had a big focus on female entrepreneurs over the last two to three years, which is very positive. If you look at the historical statistics, there were not many women who left their jobs to set up new businesses.

But more generally — and I’m not just talking about financial services — setting up a business employing 10 or 20 people creates so much value for the local economy that we need to do more from a fiscal perspective to encourage this sort of entrepreneurship.

Dargan, State Street: Another key priority, as we see some sectors adversely impacted by Brexit, will be to re-educate people to encourage them to move into alternative growth sectors. We did this very successfully during the crisis, re-educating people to move from the real estate sector to financial services, and I think there will be similar opportunities going forward.

GlobalCapital: I’d like to drill down more into the growth of the Irish financial services sector and the reasons for its success over the last 10 or 20 years. Kieran, the funds business was posting explosive growth long before Brexit. What were the drivers of this growth?

Fox, Irish Funds Association: The last five years has seen very significant growth in the funds industry in Ireland. The assets of Irish-domiciled funds have doubled since 2011, while the assets under administration of domiciled and non-domiciled funds which are serviced from Ireland have more than doubled in the last five years.

It hasn’t been an overnight success. It has been a 30 year overnight success, and it goes back to the factors we’ve been discussing. Tax rates may be just one of these. But companies’ decisions about where to locate and the future structuring of their business models are based on many other factors, such as the accessibility of a young, well educated and adaptable workforce, proximity to key markets such as the UK and the US, and a business-friendly environment.

I would also emphasise the increasing diversification of our client base. As of last year there were 480 different asset managers from more than 50 different countries that had established fund ranges in Ireland for global distribution, and that number is increasing all the time.

We have a very deep and wide ecosystem and infrastructure for establishing and servicing funds here, and we have benefited from great support from the government and government agencies. The funds industry in Ireland is also helped by the good global reputation that the central bank has built up over many years.

A lot of our success has been built on our capacity to offer a very complete product set. If an asset manager is looking to establish a fund for global distribution,
any fund structure or product type can be established in Ireland. This has taken hard work and constant evolution to widen the product set and ensure that our legislation is competitive, fresh and appealing to its client base.

We have built up significant areas where we are European and global leaders. About 40% of the world’s hedge funds are administered here. Something like 56% of all European ETFs are established in Ireland, and 2016 was the best year ever for net sales of Irish-domiciled funds, which reached €139bn. In terms of the run rate of net sales, Ireland is disproportionately successful.

**Global Capital**: It is generally recognised that there is healthy competition in the funds business between Ireland and Luxembourg. How does Ireland differentiate itself from Luxembourg?

**Fox, Irish Funds Association**: Investment funds are governed across Europe by UCITS and AIFMD regulations which are applied in a well-harmonised way. So technically in terms of fund regulations there is very little difference.

Where the difference comes into play is in the other factors that affect the decisions businesses make, which are things like the services available to asset managers from their administrators, their auditors and their law firms. Those decisions are also influenced by the business culture prevailing here and by the attitudes of the regulators. We continually advocate more proactive legislation and balanced policy from the authorities. But in global terms, the central bank’s reputation within the investment funds industry is a positive.

**Dargan, State Street**: I’m a little conflicted here because I have responsibility within my company for both Ireland and Luxembourg. But one of the differences is cost. Ireland has benefited from the cost dynamics it has enjoyed over the last decade or so.

The flexibility of the workforce is also a real advantage, as is being able to adapt as your services evolve. We now have competition from some lower cost locations, and as that competition has evolved we have been able to move our knowledge base up the chain.

**Dalton, Deloitte**: I don’t think Luxembourg and Ireland are fully comparable, because the two centres tend to focus on different areas. As Kieran said, Ireland is particularly strong in hedge funds and the alternatives space. It is also particularly strong around institutional investors, especially in the US and the UK, whereas Luxembourg is more focused on retail investors and on continental European asset managers. So there are significant differences between the two jurisdictions.

**Global Capital**: What role is the government playing in promoting Ireland’s credentials as a financial services centre?

**Murphy, Department of Finance**: We don’t talk about taking advantage of Brexit, which we believe to be a negative decision. But we recognise that if certain companies want to retain access to the single market they will need to relocate part of their business to an EU jurisdiction.

We also recognise the need for us to continue to avail of the UK market, because passporting rights work both ways.

We have tried to work constructively with companies that are already located here, as well as with those that are located in the UK or further afield, to ensure that they can either maintain access to — or establish a presence in — the single market.

What we’re hearing from companies is that they can’t afford to wait and see what the outcome of the Brexit negotiations will be. They have to act now to protect their shareholders, their customers and their employees. They’re looking at various jurisdictions across Europe, one of which is Ireland. And we have told them about the positives we can offer them, such as common law, English language, connectivity and being the only country with pre-clearance into the US.

**Global Capital**: It is argued that some of the greatest opportunities for Ireland will arise as a result of the UK’s loss of passporting rights when it leaves the EU. But to play devil’s advocate, surely equivalence will prevail. In other words, won’t the UK ensure that its law is identical to EU legislation, which in turn will ensure that it is recognised across all member states, making the loss of passporting a non-issue?

**Dalton, Deloitte**: It has been interesting to watch the reaction of London to Brexit and how the City has been lobbying the UK government since the referendum. There was initially a very strong focus on making sure that passporting would be preserved as part of the UK’s strategy for the Brexit negotiations. But what became clear fairly early on was that financial services were a relatively low priority from the UK government’s perspective. Considerations like security were ranked much higher.

In some of the British government’s most recent strategy documents on Brexit, passporting has not even been mentioned. This is the context of financial services in the broader negotiating position of the UK government.

The main objective of large UK-based financial services organisations in the post-Brexit scenario is to minimise the impact of Brexit on their operations. Much of that is based on locating the minimum amount of their business in a jurisdiction outside the UK that is needed to satisfy the EU’s requirements.

I would contrast that with some of the US financial services institutions, where the view of senior management is that they need certainty. The engagement that we’ve had with the management of some US financial services companies is that they want certainty and a solution to the Brexit challenge that deals with all the possible outcomes. The focus on a worst-case scenario is leading many of them to make a decision on their location strategy.

**Fox, Irish Funds Association**: I agree. Sitting here today, it may look reasonable to make an assumption that equivalence will prevail for the UK. But that comes with risks, because we still don’t know how the next two years will play out. Political risk is such that we can’t say with absolute certainty that there is going to be equivalence. And even if there is, equivalence is the poor relation of pass-
Ireland after Brexit

Donoghue, IDA Ireland: We are talking to dozens of companies which are working on the assumption of a hard Brexit. They are assuming no passporting and no third country equivalence in two years’ time and are therefore preparing on the basis of a worst-case scenario. This is a prudent approach.

Murphy, Department of Finance: Our plan for 2020 is to add 10,000 jobs across a number of sectors within the financial services industry.

The first conversations we had with companies here after the Brexit decision was about moving their technology and data activities across to Ireland. This was the first area where we saw movement among some of the banks.

Traditional areas where we’re strong include aviation and aircraft financing and leasing. We believe the parent companies of groups that have been successful in these areas might now start to consider moving other parts of their business here. That is already creating a strong pull factor.

Increasingly we have seen fund management growing on the back of the flourishing fund administration business here, and there have been a few announcements recently from companies that are moving their management business from Ireland.

On the fintech and payment side, I have led a number of delegations abroad on behalf of Enterprise Ireland, which have met with a very good response. Increasingly, because of the strong offering we already have on the payments side, a number of companies are looking to invest across the fintech space.

Among some of the bigger, more traditional businesses that have yet to develop here, there is a lot of interest in areas like broker-dealing.

O’Caoimh, Northern Trust: Looking across our full suite of services and products, we’ve seen an increase in our activity in CCFs (common contractual funds), which are our tax-transparent pooling vehicles, and that will continue. We’re also seeing increased activity in a whole range of strategies from real estate to engineered equity or smart beta products.

More broadly, though, we may sometimes underestimate just how vibrant the asset management space is here in Ireland, and how much we have achieved over the past 30 years as others have outlined. We are in a great position of strength and in my view the Irish financial services space is growing and will continue to thrive with or without Brexit.

Dargan, State Street: I agree that tax-transparent funds is a growth area. Exchange-traded funds (ETFs) are another big part of our service offering, and we’re seeing significant activity there. And looking beyond asset servicing, as the minister mentioned, we are seeing a lot
Our priority is clearly looking very different in a number of years from now. Because depending on how Brexit plays out, the financial services industry could turn out to be an attractive option. There are still major problems in Greece and huge unemployment in Italy and Spain. All it would take is continued weakness in the economies at the periphery of Europe, especially Italy, to cause a significant shock to the EU. So the conversation could very quickly flip from being about Brexit to the future of the EU itself.

The common currency can’t work until we see a full scale of the potential relocations. So the industry will move towards a more decentralised and distributive structure in a European context. That certainly represents an opportunity for Dublin to increase its size relative to other centres.

McCarthy, FEXCO: We also need to be aware of the possibility of Brexit being overtaken by events elsewhere in Europe. If you look at the macroeconomic environment in the EU, it is quite possible that some of the stresses reappearing in the periphery could end up creating a problem which is greater than Brexit to Europe within the next five or 10 years.

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