SPECIAL PURPOSE VEHICLES AND THE SECURITISATION INDUSTRY IN IRELAND

IDSA
Irish Debt Securities Association

Ireland: The Leading European Jurisdiction for SPVs, Structured Finance and Securitised Structures

- Ireland is the leading European jurisdiction for SPVs, representing 24% of the European industry with 1400 SPVs
- In excess of 1,100 people are employed in the securitisation sector, making a direct economic contribution of €112m per year
- SPVs are required and used by a cross-section of the international financial services sector in Ireland; investment funds, the aircraft leasing sector and insurance companies use Section 110 companies to hold certain types of assets as part of their risk management strategies
- The importance of non-banking funding channels to generate real economic activity, stimulate growth and to make the financial system more resilient is well understood, with the Governor of the Irish Central Bank noting that "vibrant capital markets are essential for a well-developed and stable financial system"
- Ireland continues to lead the sector in determining and defining best industry practice

SPVs and Securitisation: a "significantly important financing channel" used to generate real economic activity, stimulate growth and make the financial system more resilient

A Special Purpose Vehicle (SPV) is simply a company with a specified and limited purpose. An SPV is established to provide a structure for investors to make an investment with certainty and protection. Special purpose companies have existed for at least 400 years and are used extensively by governments (e.g. sovereign wealth funds) and semi-government agencies (utilities, oil, gas, mining, aviation) as well as the private sector.

The leading economies and financial services centres have securitisation regimes, including the UK, Germany, France, Italy, US, Netherlands, and Luxembourg, as well as Ireland.

In recent years, securitisation has been identified by regulatory authorities as an important alternative source of funding for companies.

"Europe needs stronger, deeper capital markets" wrote Lord Hill, the then European Commissioner for Financial Stability, Financial Services and Capital Markets Union when publishing the European Commission's securitisation proposals as part of the European Capital Markets Union.

"We could give Europe's businesses more choices over funding, helping them to invest and grow; increase investment in infrastructure; draw in more funding from outside the EU; help businesses sell into bigger markets; and help those saving for their old age. And, by reducing reliance on bank funding, we could help make the financial system more resilient, particularly in the Eurozone".

Lord Hill is not alone in this view. "Market-based debt funding provides an important alternative to bank-based debt funding, with multiple funding channels a key element in the design of a resilient financial system," remarked the Governor of the Central Bank, Philip Lane at the 2016 International Capital Market Association Conference, where he added that a focus on capital markets is "timely", given the widespread consensus that Europe would be better served by a more balanced financial system, in which financial markets play a larger role and provide alternative channels to banks in a range of financial intermediation activities.

Ireland, the leading European Jurisdiction, Economic Contribution and the Interconnectedness of the International Finance Services Sector

Through industry ambition, experience and expertise and with 1,400 SPVs representing 24% of the European industry as measured by proportion of FVC assets - Ireland is the leading European jurisdiction for special purpose vehicles (SPVs).

With an infrastructure of specialist service providers, including directors, advisers, listing agents and trustees, the industry in Ireland has supported and serviced the widest range of structured finance deals. There is in excess of 1,100 people employed in the sector, which makes a direct economic contribution of about €112 million a year.

For every 1.5 SPVs that are established in Ireland, the equivalent of one job is created, making a direct contribution to the economy of €120,000. However, these figures understate the wider economic importance of securitisation. The figures simply refer to the direct contribution from the establishment and servicing of the structures themselves. A further contribution is also relevant for the management and servicing of the assets of the structure e.g. loan servicing, trustee services etc.

SPVs and structured finance are a fundamental part of the international financial services infrastructure. SPVs are required and used by a cross-section of the international financial services sector; investment funds, the aircraft leasing sector and insurance companies use SPVs or Section 110 Companies (S110) to hold certain types of assets, as part of their risk management strategies.

The industry in Ireland is predominantly international, with 86% of Irish SPVs set up on behalf of non-Irish sponsors. The US and UK account for 45% of all SPVs domiciled in Ireland. These FVCs and SPVs have very limited direct links to the Irish economy, as the majority of their assets and liabilities are located outside of Ireland. With relatively low exposure to Irish-resident assets and few Irish-resident investors, there is little, if any, systemic considerations from Irish SPVs.

Regulation, taxation and transparency: Ireland continues to lead the industry in determining and defining industry best practise

With a highly regarded legal and regulatory regime, Ireland is an international jurisdiction that is a member of the EU and a member of the OECD. Ireland, like the US and the UK, is a common law jurisdiction.

Through an industry supported initiative, the Central Bank receives regular statistical reporting from all S110 SPVs, both FVCs and non-FVCs.

SPVs are established as companies in Ireland, and are therefore subject to all Irish laws, regulations and tax. Being established in Ireland as a company includes inherent legal obligations and requirements. These obligations and requirements provide security, certainty and protection to all parties to the arrangement. And it is these legal obligations and certainty that are required and valued by investors.

Ireland has fully signed up to all EU, OECD and major international tax information sharing arrangements. This means that activities in Ireland are in accordance with international best practice.

This international tax environment and cross border tax issues are currently being considered as part of the OECD's BEPS project.

Emphasising Ireland's leadership in the international industry, issues that were addressed by the Irish authorities in 2011, are now being considered by the global authorities as part of the OECD BEPS proposals. The 2011 changes consisted of targeted measures, and have proven effective and workable for both taxpayers and tax authorities, designed as they are with particular cross border arrangements in mind, which fit within Ireland's existing tax framework.

Moreover, the industry in Ireland has commenced consideration of a "best in class" legal framework for securitisation companies and SPVs, the ISPV. The goal of the ISPV is to develop a unique investment vehicle that will be internationally recognised and will support high quality European securitisation and other structured finance and investment transactions. This can be achieved by developing the current general legal and governance environment by adding provisions to provide additional legal certainty and efficiencies.