IRELAND’S MOMENTOUS DEVELOPMENT

Ireland’s new corporate Irish Collective Asset-management Vehicle (Icav) is living up to its potential as the new investment structure of choice for fund promoters in Ireland. HFMWeek spoke to Fearghal Woods and David Burnett of Northern Trust as it reaches its first year.

Fearghal Woods is a director of Northern Trust Ireland and has responsibility for global fund services product development in Europe, Middle East and Africa (Emea). Fearghal is an active member of Irish Funds (the Irish Funds Industry Association) and served as Chairman in 2012/13.

David Burnett is Northern Trust’s head of hedge fund services in Emea. In this role David is responsible for client relationship management as well as implementations and fund operations.

HFMWeek (HFM): How significant is the fact that Icav’s have their own legislative code and are therefore exempt from certain European and Irish legislation?

Fearghal Woods (FW): I regard the Icav as one of the most significant developments in the Irish fund industry’s evolution. It adds a great deal of flexibility to investment managers operating funds in Ireland capable of global distribution.

The fact that the legislation is specific to Icav means that only issues that have a direct impact on the operation of the investment fund will be applied. Historically, general company law updates have had the unintended consequence of impacting Irish-based investment funds as they were authorised under the same legislation. The Icav legislation has ushered in a more stable environment for managers and gives confidence to those using the structure as only EU and Irish company legislation specific to investment funds will be implemented in Icav law.

HFM: What are the key tax advantages of operating as an Icav?

FW: Client feedback has been strong regarding the advantages of utilising tax-transparent elements. The advantages of the Icav are in line with the advantages of the VCC; both are able to take advantage of the Irish/US tax treaty rates providing they meet certain conditions. In addition, the Icav has eligibility to ‘check the box’ for US tax purposes; this means that the fund is treated as a partnership for US tax purposes making it attractive for US investors who can be taxed at their individual rate rather than the fund rate.

To benefit from these tax advantages, managers need to work closely with service providers who have a strong track record of supporting such vehicles.

HFM: What kind of flexibility does the Icav structure offer with regard to investment strategies?

David Burnett (DB): Subject to meeting the prescribed regulatory requirements under a Ucits or AIF structure, investment managers using the Icav as the investment vehicle don’t face an additional layer of restrictions with regards to specific risk spreading/diversification requirements. This is a positive development for hedge fund managers, bringing more certainty over the approval process. Previously, all Irish corporate structures had very specific diversification requirements. Icav’s don’t include these requirements, allowing more concentration in the strategy if required – subject to the regulator’s approval on the diversification strategy proposed. This will appeal to alternative managers looking at utilising the strategies in a flexible structure that can be distributed on a cross-border basis.

HFM: What level of interest are you seeing?

DB: Interest in the Icav structure has been very high with over 90 new funds launched since April 2015.

FW: While most of the new Icavs have been new fund structures to Ireland, a significant number have been funds redomiciling to Ireland from other centres and taking the form of an Icav. This reflects a greater demand for more onshore regulated structures as investors look to greater investor protection, transparency and regulation within the Ucits or AIFMD framework. As more managers look to take advantage of cross-border passport arrangements this is a trend that is likely to continue and grow in 2016 and beyond.

FACT BOX

The Irish Collective Asset-management Vehicle (Icav) was introduced in March 2015.

Key features:
- Sits alongside Ireland’s Variable Capital Company (VCC), which to date has been the preferred vehicle of choice for most fund promoters operating in Ireland
- Corporate vehicle for Ucits or non-Ucits structures such as Alternative Investment Funds (AIFs)
- Can be established as an umbrella structure with different sub-funds and share classes and listed on a stock exchange if required

Advantages:
- Qualifies for ‘check-the-box’ status for US tax purposes, meaning it can elect to be transparent for US federal tax purposes
- Simplified corporate structure designed for investment funds