



Building on Success

International Financial Services Industry in Ireland





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Foreword

This review of the future of the international financial services industry in Ireland builds on the success of the strategy for the sector produced in 1999. The IFSC, and the international financial services industry in general, has enjoyed enormous success since its beginnings in 1987. This continued success and its importance to the economy is illustrated by the net trade surplus of €9.9 billion in IFSC activities in 2004. The growth in IFSC exports comprising mainly insurance, financial services and business services exports, has been 234 per cent since 1999. The number of people employed in the industry has grown dramatically in the years since - approximately 18,000 people are now employed directly in the different sectors of the international financial services industry,

located primarily in the Docklands area. This is now a vibrant part of Dublin that has seen the introduction of residential, commercial and, more recently educational links. The Docklands area has been transformed and continues to expand from strength to strength.

In the early days of the International Financial Services Centre, the public and private sectors carefully and successfully nurtured the IFSC brand. It is important to the economy as a whole that this progress is maintained and strengthened to reflect the new realities within which the industry is now operating.

The environment for the further development of the international financial services industry is undergoing change and a crucial change in this regard was the transition to the 12½ per cent corporation tax rate appropriate to the whole industry since 31st December 2005. As a result of this change it is imperative that we continue to focus on growing this key sector ensuring that we have the right mix of policies to support its development.

It is also important to recognise that the international financial services industry in Ireland is no longer only a Dublin phenomenon. It now extends beyond the capital and has become an important part of the Government's strategy for regional development. With the right infrastructure, marketing and skills development, the regionalisation of the sector can continue to complement Dublin as the primary hub for the industry in Ireland.

The Government believes that the time is opportune to re-affirm its commitment to the industry, to build on the work undertaken since 1999 and to implement an agreed work programme to ensure that we proactively pursue appropriate actions for the further development of the industry. My Department and the IFSC Clearing House Group, still maintains the central role it has occupied since the beginning of the IFSC in 1987 and it is intended that it should play an active part in overseeing the implementation of this report.

I believe that this document provides a robust plan that will sustain the industry in the years ahead – an industry which has been an outstanding success in the years since 1987.

An Taoiseach

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18,000

is the number of people directly employed in IFSC companies in 2004, representing an increase of 7 per cent on 2003, with many more employed in supporting industries.

one

Framework for the Development of the International Financial Services Industry in Ireland

The Importance of the IFSC

Exports from the IFSC have been one of the main drivers of Irish services export growth in recent years. Companies based in the IFSC account for the majority of Irish insurance and financial services exports, which grew by 310 per cent and 159 per cent respectively between 1999 and 2004.¹ It is also likely that a considerable proportion of business service exports, which include accounting and legal services, are also accounted for by the IFSC.

Looking at the evolution of IFSC trade since 1999, growth in exports of 234 per cent has outpaced the growth in total Irish services exports of 167 per cent.

Notwithstanding a slight drop in 2004, IFSC exports as a percentage of total services exports have risen from 27.5 per cent in 1999 to 34.5 per cent in 2004, amounting to €14.6 billion. IFSC imports have also grown since 1999 but at a slower rate of 156 per cent. In 2004 they stood at 18.1 per cent of total services imports².

This performance underlines the continued success of the IFSC and its importance to the economy, a point emphasised when we consider that there was a net trade surplus of €4.9 billion in IFSC activities in 2004. In addition, it is estimated that some 18,000 people were directly employed in IFSC companies in 2004, representing an increase of 7 per cent on 2003, with many more employed in supporting industries. In 2005, the corporation tax yield from IFSC companies was €823.5million.³

Environment

Over the last 15 years, Ireland's international financial services industry has grown significantly and Ireland itself has been exceptionally successful in attracting international financial services firms to locate here. A number of factors have underpinned our attractiveness as a location for international financial services, including an attractive fiscal and regulatory environment, the availability of a highly skilled educated workforce, a relatively favourable cost structure as well as political and economic stability.

However, the global and Irish environments have seen profound changes since the establishment of the IFSC and, in the context of operating in a post-IFSC environment, it is important to scope out a new strategic direction that will enable Ireland to capitalise upon the available opportunities and realise the full potential of this important sector.

1 Forfás Trade and Investment Report 2005

2 Forfás Trade and Investment Report 2005

3 Revenue Commissioners

Vision

There are excellent opportunities to grow and develop the international financial services industry in Ireland based on innovation, skills, enterprise and the business environment. The vision is that Ireland will be “a major player in International Financial Services focussed on niche opportunities, recognised as being a world class location for innovation and transaction execution by leveraging key competitive strengths.”⁴

Challenges and Opportunities

The Enterprise Strategy Group (ESG) Report Ahead of the Curve⁵, identified a number of challenges that are of relevance for the Irish international financial services industry, including:

- the exponential change in the scale of globalisation; India and China, for example, have a combined population in excess of two billion people. These countries offer low costs, an ample supply of skilled labour and are now part of the global competition for markets and mobile investment;
- the Irish cost base has increased, and

- competitors are emulating Ireland’s low rate of corporation tax.

The ESG identified that internationally traded services would occupy a more significant role in the development of the Irish economy over the next decade, that knowledge is increasingly becoming the driver of economic development and the influencer of product development and innovation. The overall focus for Ireland, which is particularly resonant for the international financial services industry here, is to identify areas where a position of competitive strength, differentiation and critical mass can be developed.

There are, of course, particular challenges and opportunities that are specific to the international financial services industry that can go beyond the macro economy analysis. The Deloitte Report highlighted some of these sectoral areas, including:

- changing business models arising from advances in technology and telecommunications and the impact of globalisation;
- the fact that the European market is gradually becoming more integrated partially driven by EU initiatives such as the Financial Services Action Plan;

- the corporate fiscal environment being still very favourable although other jurisdictions have emulated Ireland in this respect and this presents challenges for particular parts of the financial sector;
- Ireland still has cost advantages over many international financial centres, but it is no longer considered as a low cost location. The cost of skilled labour and property has increased relative to other markets in recent years; and
- other countries/regions have “upped their game” considerably in terms of marketing the attractiveness of locating there.

Opportunities

Potential opportunities have been identified across all sectors. Expectations around the timescales for when these will develop range from reasonably intermediate to longer term, within the next twelve months to the next five years and beyond. However, as with all dynamic situations, these identified opportunities will not be the only ones pursued by the various industry sectors as they respond to global trends.

The main opportunities identified in the Deloitte Report envisage Ireland as:

- A major centre for

4 Deloitte Report: Study on the Future of the Financial Services Sector in Ireland - September 04

5 ESG Report: Ahead of the Curve: Ireland’s Place in the Global Economy - July 2004

specialist debt/ financing products and securitisation, including risk securitisation;

- A centre for managing global/regional banking products;
- A centre of excellence for funds servicing;
- A centre of scale in asset management;
- The pan-European location for insurance products;
- A software development centre; and
- A center for product development and innovation

Developing a Way Forward

The international financial services industry in Ireland is not a homogenous entity; it is a diverse sector with a multiplicity of factors affecting

its competitiveness. The challenges and opportunities identified above reflect an analysis at the level of the economy that are of relevance to the industry, as well as those that are particular to the industry itself. Given the complexity of the issues involved, it is essential that a comprehensive framework is identified which is capable of encompassing these complexities whilst, at the same time, providing a clear roadmap for action.

The framework proposed outlines the key areas which we believe have the potential to develop competitive advantage for the international financial services industry in Ireland and is closely aligned with the ESG model for Irish Enterprise policy while drawing from the specific submissions from the IFSC Working Groups and Task Forces.

Conclusion

The following chapters explore what actions will be delivered within this Development Framework with a view to gaining competitive advantage for the international financial services industry in Ireland. These commitments will be delivered against specific timeframes and will be implemented by the relevant Government Departments and agencies, as well as the Financial Regulator and, where appropriate, by industry.

The Clearing House Group will monitor progress on the delivery of these commitments and will continue to identify trends and developments in respect of the essential conditions identified above.

Figure 1: Development Framework for the International Financial Services Industry in Ireland

Goal				
Sustainable and Competitive Financial Enterprises				
Competitive Advantages				
Flexible and Sound Regulatory Environment	Attractive Legislative & Fiscal Environment	Expertise In Markets	World Class Skills, Education and Training	Product Development/ Innovation/ R &D
Essential Conditions				
Cost Competitiveness	Infrastructure	Government Support and Partnership	Policy Consistency	

4.9 billion

in 2004 there was a net
trade surplus of €4.9
billion in IFSC activities

two

Flexible and Sound Regulatory Environment

Shaping the Regulatory Environment

Regulation is a key tool used by Governments to achieve their policy objectives, along with taxation and spending. Every citizen and business is subject to a wide range of regulations influencing economic and social behaviour. Many areas require an extensive body of regulation to ensure the protection of public welfare, health and safety. Although regulations are essential in many areas, there is now an increasing awareness, both at national and European level, that poor quality or unnecessary regulation can be a barrier to competitiveness and growth. In addition, such regulation can unnecessarily alienate citizens

and enterprises through imposing disproportionate compliance costs.

The Irish Government has responded to these issues by developing a comprehensive and wide-ranging policy in relation to Better Regulation that is set out in its 2004 White Paper Regulating Better. The White Paper sets out six principles of good regulation: Necessity, Effectiveness, Proportionality, Transparency, Accountability and Consistency. It also identifies a range of actions to promote these principles.

The Financial Regulator is an active participant on the Better Regulation Group, which is overseeing the implementation of the White Paper.

The financial sector is also well represented on the Business Regulation Forum, which was established by the Minister for Enterprise, Trade and Employment in 2005. The Forum provides an opportunity for business and industry to highlight regulations that

are problematic from their perspective and to feed into the complementary work of the Better Regulation Group. The work of both of these groups, and the active involvement of the financial sector within them, should contribute to the achievement of an enhanced regulatory framework for the international financial services industry.

The Financial Regulator and the International Financial Services Industry

The regulatory environment within which the international financial services industry operates is heavily influenced by the work of the Financial Regulator. The Financial Regulator plays an important role in industry's ability to grow in a robust and solid manner. The Financial Regulator defines its vision for the industry as one that "will operate in a cost effective and responsive regulatory system that facilitates innovation, competitiveness and growth both in Ireland and internationally."

The Financial Regulator also

has collegial responsibilities to the EU Commission and to fellow EU regulators as well as to other international regulatory agencies, arising from the flows of business made possible by mutual recognition of prudential and supervisory standards.

Credibility and Competitiveness

A strong, credible and supportive regulatory regime is of paramount importance to the reputation and competitiveness of the industry. The Financial Regulator is particularly conscious of the need to operate an efficient, effective and impartial regime and to encourage a competitive and expanding market of high reputation. This is the heart of its principles-based approach to regulation.

Underpinning the principles-based approach to regulation is the requirement that those operating in the industry are fit and proper individuals who apply sound corporate governance principles, acting honestly and ethically at all times. The introduction of a new Fitness and Probity Framework in 2006 will give effect to these principles by providing clear guidance and structure for their implementation.

Efficiency and Expertise

The Financial Regulator has in the past and continues to take measures designed to increase its efficiency and effectiveness. The establishment of specialist units, e.g. authorisation, accounting and anti-money laundering; the streamlining of authorisation processes; and the elimination of inefficient regulatory reporting are evidence of a commitment to continuous improvement. Moreover, the Financial Regulator is committed to continuing to recruit specialist staff who have the expertise to regulate an increasingly complex and diverse industry, and these staff are accessible to the industry that they regulate. The Industry will develop a proposal for an Industry/Financial Regulator secondment programme for consideration by the Financial Regulator.

Transparency and Responsiveness

The Financial Regulator believes that transparency and responsiveness to the industry is essential to ensure regulatory clarity and relevance. In this connection, the Financial Services Consultative Industry Panel, in conjunction with the Financial Regulator, has commissioned a survey

on the performance of the Regulator. This is a significant piece of work, the results of which will provide important feedback to the Financial Regulator in developing its Strategic Direction for 2007-2009. In the interim, the Regulator has agreed the following measures with the industry to be achieved in 2006:

- to develop service protocols which will establish targets and define respective expectations for the various types of interaction between the industry and the Financial Regulator;
- to clarify its role in relation to innovation and product development in the international financial services industry;
- to clarify its role in relation to the regulation of wholesale and retail financial services providers, and
- to continue, in conjunction with the industry, to seek efficiencies in the general authorisation process.

In addition, the Financial Regulator is considering a review of current outsourcing activities taking account of international best practice in this area.

Cost Issues

The Financial Regulator has committed, under its Strategic Plan 2006,

to introduce Regulatory Impact Analysis, in line with the Government's Better Regulation Principles, and in consultation with the industry. It is intended that this process will ensure that regulations are well-targeted and enforced and do not have unintended side effects or disproportionate compliance costs.

The funding of the Financial Regulator incorporates a proportion of industry co-funding of the order of 50 per cent of total costs for the period 2004 to 2006. The post-2006 position is currently under review.

International Activities and Responsibilities

The Financial Regulator participates actively in relevant international fora and works closely with its fellow regulators overseas, particularly those with whom it shares a common interest. It is agreed that it is essential that the industry should continue to fully and adequately participate in all relevant international fora and keep up to date on developments in this regard.

As the Irish financial regulatory environment is increasingly shaped by international and EU bodies it is essential that the industry responds to relevant papers/questionnaires issued by

bodies such as CESR and IOSCO (funds and securities), CEBS and Basel (banking) and CEIOPS and the IAIS (insurance). The proposed Financial Legislation Advisory Forum under the auspices of the Department of Finance intends to ensure structured engagement with industry on the development of the legislative framework and will hopefully, provide an opportunity for greater industry awareness of international and EU developments.

Industry Specific Issues

The Financial Regulator is broadly supportive of the specific issues identified in the context of this report and has set out its response below. This positive approach to the industry requirements can be gauged in part by the steps set out in its current 3-year strategy.

In relation to all industry sectors, the Financial Regulator recognises the need to achieve a speedy authorisation process both in relation to the approval of entities (for example companies wishing to establish an operation in Ireland or to extend the scope of an existing authorisation) and in relation to the approval of products (for example investment funds). While the Financial Regulator cannot compromise its

regulatory requirements, it will endeavour, where possible, to facilitate the timelines of applicants.

Funds

In relation to the funds industry, the Financial Regulator:

- will conduct a review of the minimum activities requirements, in conjunction with the industry during 2006, in respect of the administration of collective investment schemes;
- is open to discussions regarding a new investment fund structure, which would not require regulatory approval prior to launch, where these discussions consider fully the implications of such a structure for the Irish funds industry; and
- will consider improvements/amendments to the funds application forms and provide further industry workshops to advise on the completion of these forms, while industry and the introducing firms must recognise that it has its own obligations in this area.

Insurance

With regard to the insurance sector, the Financial Regulator:

- continues to seek the active participation of the industry necessary to inform the Financial Regulator's contribution to the Solvency II project. The Financial Regulator is happy to participate with the subgroup of the Insurance Working Group as part of securing that input;
- has engaged external consultants and will maintain its commitment to ensuring dedicated expertise and engagement with the industry on the forthcoming regulatory regime for reinsurance including finite reinsurance and reinsurance special purpose vehicles (SPVs);
- accepts that the application of the 80/20 rule is not appropriate or necessary in all situations and is prepared to modify or waive the rule depending on circumstances; and
- is committed through the forum of the Captive Working Group to exploring all legitimate issues impacting on the development of the captive sector in Ireland. A review of the sector has been initiated.

Banking

In relation to the banking sector, the Financial Regulator:

- will introduce effective methods of consultation;
- will continue its engagement with the industry on the implementation of the Capital Requirements Directive;
- will circulate the final paper on a new liquidity framework to industry during 2006;
- is awaiting CEBS guidance on the amendment of sectoral exposure rules to reflect the specialist nature of international banking; and
- will undertake a review of the deposit taking rules particularly as they apply to the use of repo funding.

Conclusion

These commitments from the Financial Regulator, as set out in this chapter, are a reflection of a desire to facilitate, with appropriate and effective regulation, the future growth and development of the international financial services industry in Ireland. These actions will, together with those outlined in the 2006 Financial Regulator's Strategic Plan, provide a well-ordered and respected regulatory environment consistent with its obligations to consumers and its international partners.

This review of the future of
the international financial
services industry in Ireland
builds on the success of
the strategy for the sector
produced in 1999

1999

three

Attractive Legislative and Fiscal Environment

Introduction

The legislative and fiscal environments are key competitive building blocks for the international financial services industry in Ireland. A modern and up to date legislative framework and a tax environment focused on the realities of international finance will help maintain the competitiveness of the international financial services industry. This chapter explores the steps that are being/will be taken to meet these requirements.

Legislative Framework for Financial Services Regulation

Objectives of Financial Services Legislation

The quality and effectiveness of the legislative framework for

financial regulation is central to the reputation of Ireland's regulatory regime and to the competitiveness of the international financial services industry.

While financial services legislation in Ireland largely derives from EU requirements, the structure and operation of the legal framework has the potential to represent a significant competitive advantage for international financial services in Ireland, both through efficiency and through preserving the quality and reputation of the overall regulatory environment.

The key objectives of the legal framework for international financial services regulation in Ireland are clear-cut:

- to ensure the stability of the financial system;
- to protect the interests of customers;
- to enhance the international competitiveness of the industry;
- to meet best-practice international standards; and
- to build the reputation of the regulatory environment.

A more integrated and harmonised legal framework is central to the full realisation of these benefits.

Consolidation and modernisation of financial service legislation

In that context, a major consolidation and modernisation of legislation for financial services regulation is planned by the Department of Finance. The approach being adopted is based on extensive stakeholder consultation involving significant input from and on-going dialogue with industry and consumer representatives. The goal is to consolidate the various elements of the existing legislative framework for the regulation of financial services. The project would also provide the basis for examination of the scope for the further reform and modernisation of the overall legislative framework for financial services regulation.

The reform of financial services legislation is expected to yield significant competitive benefits in terms of:

- helping to strike an appropriate balance between the effectiveness and efficiency of the regulatory system;
- embedding Regulatory Impact Analysis

- in the process of legislative change;
- ensuring, through an integrated approach, enhanced consistency and coherence of financial service regulation;
- providing certainty and legal clarity for market participants;
- the potential for increased flexibility and improved responsiveness, thereby helping to facilitate market and product innovation and development; and
- dovetailing with the operation of the Lamfalussy approach to EU legislation.

EU Financial Services Policy

Against the backdrop of an ever more complex European legal and regulatory framework, legislative developments in Ireland have made a major contribution to underpinning the growth and development of the international financial services industry in Ireland, for example:

- the transposition of a large volume of EU legislation under the Financial Services Action Plan (FSAP) over recent years has enabled access to the whole of the EU financial services market

- for firms located in Ireland;
- the development of a number of major EU legislative initiatives (including the Reinsurance Directive, the Markets in Financial Instruments Directive and the Capital Requirements Directive) has been informed by the requirements of the international financial services industry in Ireland; and
- specific domestic legal initiatives undertaken to facilitate the development of new activities and products for the international side of the Irish financial services industry (for example in the area of asset covered securities).

The European Commission's White Paper on Financial Services Policy 2005-2010 sets out the overall objectives for EU financial services policy over the next five years. These objectives are to:

- consolidate dynamically towards an integrated, open, inclusive, competitive and economically efficient EU financial market;
- remove the remaining economically significant barriers so that financial services can be provided and capital can circulate freely throughout the EU at the lowest possible cost;
- implement, enforce and continuously evaluate

- existing legislation;
- enhance supervisory co-operation and convergence in the EU; and
- deepen relations with other global financial marketplaces and strengthen European influence globally.

This agenda provides both significant opportunities and important challenges to fostering the global competitiveness of the international financial services industry in Ireland. Ireland will continue to play a full and constructive role in the development of EU financial services policy, with a focus in particular on ensuring the right balance is struck between regulatory objectives and ensuring an innovative and competitive industry. Progress in building a single EU wholesale financial market and the intensification of efforts to accelerate retail integration of EU markets will increasingly bring into much closer alignment what were heretofore differentiated domestic and international marketplaces.

Structured Stakeholder Input

The structured involvement of the stakeholder is considered central to the successful development of the proposed new legislative system. In this context, it is proposed that existing ad-hoc consultative arrangements should be

formalised and developed through the proposed establishment of a Financial Legislation Advisory Forum.

The proposed Forum is intended to ensure structured engagement with industry on the development of the legislative framework for financial services, including in relation to monitoring EU financial services proposals.

This improved communication and dialogue in relation to legislative matters is expected to underpin the continued development of a world-class legislative environment. The Forum would facilitate input into and consultation regarding the development of financial services legislation providing the opportunity for:

- engagement on the design and conduct of the proposed consolidation and modernisation of the legal framework;
- timely and informed feedback on key legislative issues;
- anticipating and developing awareness concerning key legislative issues at EU-level and encouraging debate on possible responses; and
- early identification of practical implementation issues arising from the transposition of EU legislation.

In order for the Advisory Forum to meet its objectives it is essential that there is strong commitment and adequate

resources from both the public and industry sector sides.

Company Law

The Company Law Framework is undergoing significant and important modernisation. The changes will consolidate and make the legislation significantly more accessible, with consequent benefits to business in particular.

The funds industry, however, has expressed certain concerns relating to financial reporting standards that cannot be addressed by these changes in company law. Specifically, the funds industry has brought to attention difficulties that have been created by a financial reporting standard issued by the (UK) Accounting Standards Boards (ASB). UK authorised Collective Investment Schemes are not required to comply with these standards - because they are neither incorporated as companies nor listed on the Stock Exchange. The Irish funds industry, for commercial reasons, does not wish to operate on a similar basis to the UK entities referred to above. Accordingly, competitive disadvantage issues arise for the funds industry.

The Department of Enterprise, Trade and Employment has undertaken to work with the funds industry to address this issue, and has already taken a number of initiatives to move

matters forward. The first is that it has been in consultation with the accounting profession and understands that the Institute of Chartered Accountants in Ireland (ICAI) is prepared to accept a representative from the funds industry to its Accounting Standards Committee. The Department also asked the Irish Auditing and Accounting Supervisory Authority (IAASA) to consider and report back to it in relation to proposals made by the funds industry. The Board of IAASA, having formally considered the matter, has communicated its view that the offer of funds industry representation on the ICAI Accounting Standards Committee and IAASA's recently granted observer status on the ASB should serve to address these matters. In relation to the latter, the Department is prepared to facilitate liaison between the funds industry and IAASA. In addition to this, the ASB held a public forum in Dublin in June 2006 to discuss its future in the standards area, and the Department facilitated attendance by the funds industry at this meeting.

Increased focus in responding to needs of the international financial services industry

As further evidence of its commitment to the international financial services industry, the possibility of broadening the remit of the Company Law Financial Services Unit in the Department of Enterprise, Trade and Employment will be explored. This unit would not only specifically respond to the legislative requirements of the funds industry as it does at present but could encompass responses to the business development needs of the international financial services industry which could be delivered in consultation and co-operation with other units already operating within other divisions of the Department with similar objectives for the broader industry.

Specific areas in mind include employment, immigration, training and sectoral developments. This would mean that the Department would have a more focussed response mechanism to support the international financial services industry – ‘a one-stop-shop’ where the industry could be facilitated in raising issues which are perceived as impeding their drive to improve competitiveness.

Fiscal Environment

Ireland’s corporate tax system is clearly and deliberately transparent and it is important that we do not allow any practices to develop that would harm our international reputation. Our tax system is designed to be wide-based, flexible and non-obstructive - facilitating the encouragement of business through the easing, where possible, of unnecessary administrative burdens. It must also be, and be seen to be, equitable and make no invidious distinctions between the taxation of similar classes of taxpayers. As has been clearly demonstrated in successive Finance Acts, there is a willingness to be open to innovation and product development within the parameters in which we operate.

Specific Tax Issues

A number of issues that have been raised by the international financial services industry have been considered as part of this strategic review. In this regard, a number of key matters have been addressed during the current legislative cycle, following on from very significant changes to our fiscal regime in recent years. In particular, initiatives that will assist the funds, treasury and leasing sectors have been provided for, some with immediate effect. Other more medium term matters such as further developments for the

securitisation sector, as well as on-going policy response to new product development, are being considered in a time frame of 12 – 18 months.

An example of progress in this area is the extensive set of measures that were introduced in this year’s Finance Act to facilitate the financial services sector:

- The abolition of the 1 per cent companies capital duty on capitalisation of companies was fully realised over the last two Budgets;
- The abolition of withholding tax on registered Eurobonds;
- Ensuring that a charge to tax does not arise on an investment from a securitisation vehicle in a money market fund; and
- Providing for the issue of special share class to facilitate hedging of foreign currency risks.

In the area of Foreign Tax Credits/Double Taxation:

- Providing for pooling in the calculation of doubly taxed income; and
- Allowing for accounts of foreign groups to be consolidated when calculating doubly taxed income.

Issues relevant to the funds industry

The package of measures contained in the Finance Act 2006 will address key

issues for the Funds sector. The Department of Finance will continue to examine, in conjunction with the Revenue Commissioners, additional proposals as well as monitoring ongoing international developments in respect of this sector. Ongoing contact with the sector in terms of developmental aspects is also envisaged. The specific measures in this year's Act are:

- Providing for a Stamp Duty exemption on the re-domiciling of funds to Ireland;
- Providing that no tax charge arises, including Stamp Duty, on a merger or amalgamation between Common Contractual Funds;
- The abolition of Encashment tax as it applies to investment funds in the gross-roll-up regime;
- Ensuring that a charge to CGT does not arise on payments made to non-resident unit holders, from investment undertakings in the gross-roll-up regime; and
- Providing for an exemption from withholding tax on interest paid to an investment undertaking in the gross-roll-up regime.

Leasing

With the enactment of the 2006 Finance Act, the taxation treatment of the leasing sector will have been broadened to take on board as many Industry concerns as possible, namely:

- increasing the scope of income against which leasing capital allowances and losses can be offset, for long-life assets;
- ensuring that a balloon or back-ended lease denominated in a foreign currency, does not fall foul of the leasing ring-fence by virtue only of exchange rate fluctuations;
- allowing for the offset of losses and capital allowances on long-term assets against income from other long term leases and in certain circumstances against such income from a connected company; and
- ensuring that leases, with an uneven spread of lease payments, of certain short-life assets are not subject to the ring-fence under certain circumstances.

All of these measures, designed to ensure the ongoing development of the international financial services sector, have been broadly welcomed by Industry.

Long-term strategy

In the longer term, the Department of Finance and the Revenue Commissioners are committed to responding to industry and international developments and remain positively and constructively engaged with all relevant parties to assist in clarifying the fiscal treatment of new innovations that arise from ongoing product development.

The Department also continues to be represented on the sectoral groups operating under the aegis of the Department of the Taoiseach's Clearing House Group, and chairs the International Financial Services Tax Group, which meets periodically to facilitate a more coordinated discussion of fiscal matters for the international financial services sector.

Aggressive Tax Planning/Artificial Structures

It is important to note that a clear and firm policy obtains that no artificial schemes/structures constructed with a view to tax avoidance, will be tolerated. Such schemes must be looked at in the context of our low corporation tax rate.

823.5 million

in 2005 the corporation tax
yield from IFSC companies
was €823.5 million

four

Expertise in Markets

Marketing Ireland in a Changing Global Environment

The marketing of Ireland as a centre for International Financial Services globally is the responsibility of IDA Ireland, specifically its Financial Services Division. IDA Ireland provides a “one-stop-shop” service for foreign financial institutions that wish to locate financial services activities in Ireland. There are two key dimensions to this work, trying to attract foreign financial institutions that have yet to establish a presence in Ireland and assisting in the retention and further expansion of those that are already in Ireland.

The globalisation of financial

services has changed the competitive landscape in which Ireland operates and has serious implications for the way in which business will be won in the future. As outlined earlier, the vision is that Ireland will be a major player in International Financial Services focused on niche opportunities and will be recognised as being a world-class location for innovation and transaction execution.

Our competitive strengths will be derived from achieving a flexible and sound regulatory environment, an attractive legislative and fiscal environment, expertise in markets, world-class skills and cutting edge product development, innovation and R&D.

The Role of IDA Ireland

IDA Ireland will continue to gather relevant market intelligence, and develop appropriate marketing propositions, in order to extend Ireland’s product offering and will continue

to work with the industry to respond positively to emerging opportunities. In some cases these will be sector specific i.e. international insurance brokerage, country specific i.e. decentralisation/ regionalisation, or the extension of an incentive programme to capitalise on emerging market opportunities i.e. research and development.

The role of IDA’s overseas executives will continue to be an important asset in developing an understanding of market dynamics and trends. They are an important link to the corporate offices of Ireland’s existing base of institutions and, perhaps more importantly, they are the initiators of contact with new investment opportunities and provide an important first line of contact.

The following initiatives will be undertaken by IDA Ireland in support of its marketing role:

- develop current thinking on a framework for product and process development in the funds industry, and a strategy for decentralisation /

- regionalisation, will be further progressed and developed in 2006;
- development work on the insurance side will include a follow-up on the recommendations made in the Deloitte report on international insurance, together with identification of opportunities in the reinsurance sector as a result of the transposition of the Reinsurance Directive. It is hoped to complete this work in late 2006, together with a review of competitive positioning;
 - the development of a strategy for the securitisation sector, which it will undertake in conjunction with the newly formed Irish Securitisation Forum;
 - actively promote the R&D incentive programme to the industry, particularly to the banking sector which has expressed a strong interest in this initiative. The process has begun and will be further expanded in 2006;
 - in conjunction with relevant stakeholders, will carry out a comparative review of fiscal policy in competing jurisdictions in the medium term;
 - as a result of the passing into law of the EU Pensions Directive,

- (IORPS) IDA Ireland will develop a specific marketing proposition to address this market. Ireland has significant expertise and business infrastructure in this area and is ideally placed to exploit the opportunities presented by this measure; and
- IDA Ireland has enhanced its understanding of asset management and the critical factors driving this sector. It has developed relevant marketing material and is currently promoting Ireland as a location for specialised fund managers, institutional teams, proprietary traders and collateral managers.

In addition, IDA Ireland will continue to showcase Ireland in its marketing programme by its attendance at seminars and conferences, media interviews and articles in appropriate publications.

The Role of Enterprise Ireland

Enterprise Ireland supports the development of indigenous companies with export potential including a large and growing group of companies in the financial services industry.

Enterprise Ireland's range of supports includes the

provision of equity investment in companies together with supports for exploring new opportunities, R&D funding and assistance for human resources development. Through its network of 33 international offices, Enterprise Ireland works with client companies to assist them to compete and to grow exports in international markets. Enterprise Ireland also operates a Seed and Venture Capital Scheme.

Since the 1980's indigenous Irish software companies have established an excellent reputation delivering high quality software products, services and business solutions to global financial services organisations. In recent years, this dynamism has evolved into areas of financial services where financial services expertise and software capability are combined to create specialist niche services within the industry. It is also the area of financial services with greatest potential for indigenous growth and development and an area that will be a key development focus for Enterprise Ireland over the next five years.

Enterprise Ireland classifies the indigenous financial services industry into three distinct segments:

1. The main banks, building societies and insurance companies that have their core markets in the Irish economy and their

international activities are highly developed sophisticated operations. Enterprise Ireland maintains a working relationship with these international operations and contact bases are shared in export markets where this is mutually beneficial in promoting Ireland's exports.

2. New breed of indigenous financial service provider companies that are evolving within Ireland servicing the health/healthcare, insurance and other growing segments. These are young ambitious companies where the full services of Enterprise Ireland are made available should these companies seek to extend their activities into supplying services from Ireland into

export markets. It is also an area where capital and regulatory requirements restrict this area for new start-ups to those who can raise very substantial initial funding.

3. There is an emerging group of indigenous Irish companies focusing on specialised niche financial services which include
 - Outsourced Payments Processors and/or Treasury Management
 - Portfolio Managers / Investment & Fund Data Solution Providers
 - Outsourcing and 3rd Party Administration software and services for the Life and Pension sector.
 - Payment Service Providers
 - Dynamic Currency

Conversion services / technologies

- Outsourced Treasury Management
- Outsourced Insurance Management

Specialised niche financial services are an important opportunity area for indigenous high potential start-up companies and the full range of Enterprise Ireland's services are applied to support its development.

It will be important, however, that the industry as a whole supports these activities and contributes to them by engaging with their international colleagues and carrying the Ireland message in the public forum.

2004

Companies based in the IFSC account for the majority of Irish insurance and financial services exports, which grew by 310 per cent and 159 per cent respectively between 1999 and 2004

five

World Class Skills, Education and Training

An important element of this strategy is an initiative to grow the skill sets necessary to both support and guide this industry into the future. Government, working with industry, will seek to develop an educational resource with the critical mass to build on the success of the IFSC that will both deliver the necessary skills and enhance Ireland's reputation as a global centre of excellence.

The availability of skills will continue to play a key role in the development of the international financial services

industry. It is, therefore, of vital importance that this strategy sets out an approach for ensuring that the educational and skills provision required to sustain and further develop the industry is put in place.

The education and skill requirements must be approached from two perspectives:

- Meeting existing skills needs, which are primarily associated with back office¹ activities, is an essential prerequisite to maintaining the existing industry in Ireland and securing the growth platform for any future development.
- Ireland's future as a financial services provider lies in its ability to move towards greater

provision of higher value financial services. The success in sustaining existing and attracting new middle² and front³ office activities to Ireland will, among other factors, depend on the availability of high skills.

World Class Skills, Education and Training

Following an examination of this area five priorities have been identified, all of which are of equal importance and necessary for sustaining and further developing the international financial services industry. These are:

- Response to Acute Shortages in the Back Office;
- Access to the Irish Labour Market;
- Specialist Study into Future Skills Needs;
- Building the Educational Framework; and
- Initial Increases in Education Provision.

¹ Back office refers to administration and support personnel in a financial services company and includes functions like settlements, clearances, record maintenance, regulatory compliance, and accounting.

² Middle office refers to the group of employees in a financial services company that manages risk, calculates profits and losses, and (generally) is in charge of information technology.

³ Front office refers to the sales personnel and corporate finance employees in a financial services company and is associated with revenue generation.

Response to Acute Shortages in the Back Office

A response to widespread shortages in back office activities will involve the following initiatives:

- the promotion of career opportunities in funds, insurance, banking and securitisation administration within Ireland and overseas in both EU member states and non-EU countries (e.g. South Africa, Australia, USA, Malaysia, China etc.);
- the introduction of a fast track system for the employment permit application process for experienced investment funds professionals;
- the expansion throughout Ireland of education provision at entry level into the banking and funds industry by developing short training programmes based on the model provided by FÁS mutual funds course; and
- the provision of a platform for dialogue within the international financial services industry to address retention issues and discuss methods

of alleviating labour shortages particularly of experienced industry professionals.

Access to the Irish Labour Market

As an immediate and short-run response to the existing skill shortages in existing activities, it is necessary to create easier access to the Irish labour market for skilled EU and non-EU financial services professionals. The delivery of this strategic goal will reduce obstacles for sourcing financial expertise from non-EU countries to meet replacement or expansion needs of the industry. Sourcing financial expertise from non-EU countries will include the following:

- the consideration of the inclusion of qualified fund accountant, fund administrator, pension administrator, claims handler, compliance, fund manager, financial engineer, financial analyst, risk manager, risk analyst, actuary, underwriter, auditor, accountant, tax expert, legal expert, experienced investment funds professional, senior bankers, securitisation experts in the work visa/ authorization scheme. Once the new immigration

scheme is operational, all of these occupations will be considered for transfer to the list of eligible occupations for the Green Card System; the necessity to source financial professionals from non-EU sources and their eligibility for the green card will be reviewed regularly;

- the consideration of the inclusion of all the financial occupations listed in the previous paragraph on the eligibility list for the Inter-company Transfer Scheme, once re-introduced; this will allow for easier staff transfer between international subsidiaries and Irish branches for financial services companies; and
- the reduction of impediments to labour market access for non-EU nationals who acquire financial skills through the Irish education system.

These measures should be considered to address the existing skill needs shortages in the industry.

The Report affirms that the new economic migration arrangements announced by the Minister for Enterprise, Trade and Employment last October will help address the skills needs and shortages in the international financial services industry. These comprise:

- a Green Card system, which will provide for long-term or permanent residency after two years, immediate family reunification and spousal access to employment without limitation as to sector, for an extensive range of occupations where the annual salary level is in excess of €60,000;
- a restricted number of Green Cards for occupations for which there are skills shortages, as identified on a regular basis by the Future Skills Group, and the salary levels are in the range €30,000 to €60,000 per annum; these would include a number of occupations in the financial services sector;
- employment permits will continue to be required for all other occupations; and
- the reintroduction of the Intra-Company Transfer Scheme which will allow for the transfer of a limited number of key senior staff from overseas affiliate companies for a period of 5 years; there will also be scope for rotation of key staff, a concession which currently is not available; the number of personnel which may benefit from this arrangement is proportionate to the size of the investment in the Irish company and the number of staff on the payroll; normally

the numbers permitted would represent no more than 5% of total staff.

The working visa /work authorisation scheme is now being phased out and will be replaced by the green card system.

Specialist Study into Future Skills Needs

A specialist study will be undertaken by the Expert Group on Future Skills Needs.

This study will consider the skills needs of current and future activities in the financial services sector and what types of additional educational provision will be required to meet the future skills needs of the international financial services industry. An example of this type of analysis would be the work undertaken in relation to the CFA qualification in meeting the needs of the growing asset management industry. To this end, the study will provide detailed analysis necessary for curriculum design on existing or new financial courses. This will involve consideration of the skill needs of each of the industry sectors in the context of the opportunities envisaged for them.

In addition to identifying skills needs, this analysis will also advise on the optimal methods of

delivering education to meet identified skill needs. This will involve consideration of innovative approaches such as integrated modularised education programmes that support the process of continuous professional development and upskilling of existing professionals.

This process has already begun. There is a time lag associated with educational benefits, e.g. completion of an undergraduate and postgraduate programme takes a minimum of 4/5 years. Furthermore, there is a time lag associated with programme development. When we consider these time lags, it becomes very clear that ensuring the future opportunities in the international financial services industry are realised requires immediate consideration of future skills and educational needs.

Building the Educational Framework

Having identified the existing skills needs in the industry and developed a plan for identifying future needs, it is necessary to consider how best to mobilise funds to ensure that the associated educational provision to meet all of these needs is put in place.

The Government and industry will consider the allocation

of specific funding for this purpose. The funding will be used to establish a Centre for Financial Services Skills and an International Financial Services Skills Fund. This Fund will be managed by the Centre for Financial Services Skills which will be headed by a Director of Financial Services. The level and duration of funding to support this initiative will be agreed between Government and the industry.

Centre for Financial Services Skills

In order to sustain and grow our attractiveness as a location for international financial services, Ireland needs a Centre for Financial Services Skills. This will be headed by an academic Director for Financial Services. The objective is that the appropriate educational provision will be facilitated through this Centre. It is not envisaged that the Centre will exist in one location. Ideally it will involve several institutions collaborating together, collaborating with industry and collaborating internationally to ensure the delivery of best practice, world-class quality higher education and research in the area of financial services and quantitative management. The Centre will ensure a co-ordinated and cohesive approach to educational provision. Collaboration

and competition will be cornerstones of the Centre – within the Centre collaborating institutions will compete with each other to deliver educational programmes and win research contracts.

The establishment of a Centre for Financial Services Skills will provide an important opportunity for the development of a research function in the international financial services area. Developing a world-class research infrastructure is critical to the sustained success of our economy and the development of the knowledge innovation-driven society.

The development of a dedicated research function will provide specific assistance to the Irish international financial services industry. It will ensure the supply of very highly qualified students from Irish institutions to join the industry in Ireland (to PhD level and beyond). However, the value of the research function is more than about supplying personnel to the industry. It is about generating high quality international financial services research, creating an international reputation for Ireland in this area, positioning Irish international financial services at the top of the “value chain” and in doing so attracting more companies to locate here. Developing a world-class research

centre in this area will be a significant challenge, but will result in significant long-term sustainable rewards for the industry.

The existence of this Centre, which will be headed by a Director of Financial Services, will demonstrate Ireland’s commitment to the international financial services industry and will act as a strong and visible selling point for firms considering locating in Ireland.

The establishment of the Centre and the appointment of the Director will take place after a competitive process following the submission of proposals from collaborating institutions.

International Financial Services Skills Fund

The Centre will ensure the required educational provision through the management of the International Financial Services Skills Fund.

This type of model has already been very successful in ensuring required educational provision in the ICT and Biotechnology industries. Based on the recommendations of the Expert Group on Future Skills Needs, the Minister for Education and Science and the Tánaiste and Minister for Enterprise, Trade and Employment established

in 2001 an Information Technology Investment Fund to support the provision of high-level IT skills by third level institutions. The Fund is administered by the HEA with the support of an Advisory Group. Funds are allocated on a competitive basis to institutions that are successful in supplying the required course provision.

The Information Technology and Investment Fund is a model for the development of a similar approach in the international financial services industry. Based on the skills needs of the industry, (those existing and already identified and those that emerge from the specialist

study), the collaborating institutions within the Centre for Financial Services Skills will devise course proposals and compete with each other for approval to deliver. This Fund should ensure provision of educational programmes aimed at alleviating existing skill shortages and also projected skills needs.

Initial Increases in Education Provision

One of the initial priority areas in terms of increased education provision will be in the areas where acute shortages are currently being experienced and that are

likely to become more acute as the industry expands further and into middle and front office activities. To this end, an increase in education provision will be ensured for the following fields:

- Hedge funds administration
- Actuary
- Corporate governance
- Compliance
- Risk management
- Financial engineering
- Insurance & Reinsurance

It is envisaged that the Centre and the Fund, appropriately resourced, will be able to deliver the identified educational requirements of the industry going forward.

Looking at the evolution
of IFSC trade since 1999,
growth in exports of 234
per cent has outpaced the
growth in total services
exports of 167 per cent

234%



Product Development/Innovation/R&D

Introduction

The role of services, and especially financial services, as a source of both wealth generation and employment is becoming more pronounced as economic growth continues at high levels. The international financial services industry operates in a global environment where innovation and productivity are essential drivers of competitive advantage. It is acknowledged that the continued strong performance of the industry cannot be taken for granted.

The development of research, product development, innovation and the commercialisation capability for new products and services in Ireland is fundamental to sustaining and growing the international financial services industry. Undertaking research and development in the sciences, engineering, manufactured products etc. is an endeavour well established internationally. In the services sectors, research and development is almost a completely new concept. This is particularly true in Ireland where services research at an academic or business level is either non-existent or completely focused on software products and systems development. As with services in general, a range of factors tends to inhibit innovation in the financial services sector, including a lack of R & D funding and service concept development. In

essence, the importance and scope of innovation in financial services is relatively uncharted.

Ireland needs to do more to innovate in the services area. For the international financial services industry, the key drivers of innovation are likely to include:

- new technologies which have an enabling role, e.g. facilitating electronic banking;
- complexity: solving customer-specific problems where each problem is different and requires a different solution;
- mass customisation: providing a high volume of customer-specific solutions;
- blended offerings, that combine products and services; and
- regulatory changes.

To sustain and move employment into more highly skilled activities and expand and develop the research and innovation potential of the international financial services industry in

Ireland, it is desirable that a national funding mechanism for research be created to support the long-term development of the industry.

Against this background, the Department of Enterprise, Trade and Employment recognises that innovation in the industry is an important driver and enabler of competitiveness that benefits the whole economy. As a consequence, Forfás is undertaking a broad review of services innovation that will be published shortly. Up to now innovation supports have tended to be targeted at more technology-oriented issues and at the more tangible and visible aspects of science and innovation and enterprise output. The review has used a number of financial services case studies as empirical evidence on which to propose changes in the way innovation policy will be reinvigorated and managed. Analysis prepared for this study is leading to the conclusion that a distinct framework of business support, dedicated towards the specific needs of financial services companies (and the wider services sector) would

yield substantial benefits.

The aim is to promote more active involvement of both companies and the State in services innovation.

The Department of Enterprise, Trade and Employment considers that creating an environment that understands the role of innovation in financial services firms is part and parcel of having an innovation culture within the industry. This is conducive to the longer-term growth of the sector.

The policy options likely to come from this analysis will include more focussed supports for non-technological innovation for financial services firms. In addition the longer term need to create a services policy that will combine existing and new support measures around the specific needs of services and financial services companies will be highlighted.

There will also be strong support for a regulatory system that is both flexible and conducive to innovation in financial services because new product development, regulatory approval and speed to market are important advantages for firms in the sector. However, there are other supports

that are necessary for a competitive international financial services industry. Adequate infrastructure is essential to support the international delivery of services from locations outside Dublin where financial services firms choose to locate. The installation and consistent upgrading of ICT infrastructure necessary for the industry to operate at world-class levels has been supported by the Department of Enterprise, Trade and Employment, who take every opportunity to emphasise the importance of maintaining investment momentum in this area.

In considering the actions outlined below, an overarching issue is the question of whether the promotion of enterprise, innovation, training, R&D, employment, productivity etc in relation to financial services should not be mainstreamed, i.e. handled in the same way and through the same bodies and programmes as for other sectors.

The following factors should be considered in the context of a new financial services agenda and these will be reinforced by policy proposals that will come from Forfas's analysis of services innovation which is due to be published shortly:

→ While international financial services in the

past tended to have its own regime in the IFSC only (and similarly for all international services at Shannon), this is now effectively at an end, with 12.5 per cent tax applying in all locations in Ireland and to all traded services;

- The sector has many indigenous as well as multinational companies (MNC), suggesting that the role of Enterprise Ireland should not be overlooked through concentrating unduly on the role of IDA Ireland;
- In relation to R&D, Enterprise Ireland (EI) has a broader range of R&D programmes than IDA Ireland, and many of these are now open to MNC companies in other sectors, including, of course, clients of IDA Ireland;
- Indeed, International Services, including financial services, are fully within the coverage of the legislative remit of both IDA Ireland and Enterprise Ireland (EI) under the Industrial Development and S&T legislation. There is at present no insuperable impediment to IFSC companies, or non-IFSC international financial service operators, applying to EI R&D programmes;
- As regards Science Foundation Ireland (SFI), it funds research in sectors of strategic interest that are capable of

supporting internationally-competitive high-value production of goods or services, and promoting quality employment.

Some aspects of financial services may be covered by SFI programmes, under headings such as advanced computational science, mathematics or ICT. Therefore, as financial services are currently within the remit of EI, IDA Ireland, IRCHSS and, to a certain extent, SFI schemes, careful examination would need to be given to the validity of establishing a separate line of funding for this sector;

- A mainstream approach would make the full range of Industrial Development and R&D programmes clearly available to the sector, and to indigenous as well as foreign-owned companies. This would facilitate efficiency in the operation of agency schemes, and allow national programmes to support the best projects on the basis of objective selection criteria and irrespective of the sector concerned;
- The extent to which a sectoral as opposed to a horizontal programme approach would be in keeping with international rules on competition and trade, such as the State aid rules of the EU and the trade and investment rules of the

World Trade Organisation.

- The existing agency programmes have full national coverage, facilitating the handling of issues such as decentralisation/ regionalisation, as adverted to in this document.

Building R&D expertise in the international financial services industry in Ireland

The IDA Ireland strategy to enhance R & D expertise in the international financial services industry has three high-level components:

- Build the in-house competence and expertise of companies to do research, development and innovation;
- Influence the development of third and fourth level financial services academic excellence in research, development and innovation. This point is also considered in Chapter 5 in the context of skill development; and
- Develop and support collaborative research projects in and between international financial services companies and Higher Education Institutes (HEIs).

In order to further develop our capability in this area, the following steps are also proposed:

- use R&D capability grants and research, technology and innovation grants to promote the establishment of international financial services company research centres and increase their R&D functional capability;
- use training grants to upgrade staff skills to enable them to participate in the development of higher-value business functions and processes;
- sponsor industry events at which international experts will speak about the latest developments and future direction in global financial services; and
- use the IDA strategic competitiveness programme to help companies move into development and innovation activities by using specific case studies and sharing the experiences of other FDI companies that already have done this.

To date, Ireland's existing support mechanisms for R & D are based on direct interventions through isolated funding measures. If innovation in Ireland is to operate effectively, a continuous process of foresight, policy development, implementation and monitoring needs to be put in place. Funding schemes, priorities, objectives and targets need to be

strategically aligned and clear lines of responsibility agreed between funding bodies, agencies and industry.

It is proposed that the Clearing House Group should further explore how this type of process be developed for the international financial services industry.

Influence the development of third and fourth level academic research

The development of Irish educational capability to support the growth of the international financial services industry is a critical element of any strategy for the future and is dealt with separately in Chapter 5.

A core component of the education strategy is the need to develop and financially support an academic research capacity. This is required to ensure that educationalists available in Ireland are at the leading edge and perceived to be world class in financial service disciplines. It is also crucial if we are to produce top class undergraduates and a significant number of high quality postgraduates with the research knowledge and expertise to supply the industry's increasing research needs. The proposal for a Centre for Financial Services Skills and an International

Financial Services Skills Fund will assist in delivering this. It is suggested that a number of specific proposals would help in this regard, including:

- identify existing financial research competence in Irish institutes of higher education;
- examine the feasibility of establishing an International Institute for Services Innovation with an emphasis on financial services domain;
- work with IDA Ireland's overseas marketing team to help develop strategic alliances between Irish and leading overseas business schools; and
- support proposals by HEIs to Science Foundation Ireland (SFI) for the appointment of Principal Investigators and other research positions in financial services research areas.

Develop and support collaborative research projects

The promotion and development of inter-disciplinary research collaborations between the industry and academia is a key mechanism for growing and encouraging the engagement of the industry in research. Leveraging the expertise of academia is a way for industry to access the best thinking, people and knowledge while at the

same time minimizing its risk. For Ireland this engagement provides a greater level of comfort as to the relevance, and ultimately commercial value, of the State's investment in academic research.

Covering the horizontal issues in financial services R&D will marry academic disciplines not normally combined such as financial, business, computer science and social

science schools in and between the HEIs. Among the key initiatives would be to:

- identify company research priorities (at a corporate level) and map them against the existing strengths of their Irish subsidiaries and Irish academic strengths;
- arrange company participation in academic research projects that addresses the company research priorities;

- develop financial industry network groups and facilitate the identification of common research themes; and
- engage with world leading financial services and other services companies to solicit their support and participation in the International Institute for Services Innovation competence centre.

14.6 billion

IFSC exports as a percentage of total services exports have risen from 27.5 per cent in 1999 to 34.5 per cent in 2004 amounting to €14.6 billion

seven

Essential Conditions

Cost Competitiveness

As set out in our National Reform Programme under the Lisbon Agenda process, competitiveness is a key focus of Government policy. The aim is to enhance competitiveness by creating an environment where enterprise can flourish and consumers are protected. At the same time, policies seek to up skill the labour force, provide sustainable employment opportunities, improve workplace conditions and help to build an inclusive society. It is also a crucial factor facing the international financial services industry, where the relative costs of doing business in Ireland are being eroded vis-à-vis our competitors. It is important that we recognise this trend that is supported by various research analysis and take

the appropriate steps to place Ireland back in a competitive environment.

The Enterprise Strategy Group (ESG) Report "Ahead of the Curve" – Ireland's Place in a Global Economy found that while Ireland's economy remains strong, action is needed to ensure that potential threats do not adversely affect performance. The ESG set out medium term enterprise opportunities for the economy. An Enterprise Advisory Group (comprising senior enterprise executives and the participation of certain Secretaries General) has been set up to advise the Minister for Enterprise, Trade and Employment on progress being achieved in implementing the Government response to the E.S.G. This will enable policy development to take into account the needs of business both to help them build competitiveness and also better manage the rapid changes taking place in world trade and investment regimes.

One of the specific areas that has been focused upon as a deep-seated structural factor, contributing to Ireland's cost profile, is excessive or inappropriate regulation.

Infrastructure

Maintaining our competitiveness also requires investment in infrastructure. Under the current National Development Plan that covers the period 2000-2006, we have seen an unprecedented investment in our economic and social infrastructure.

Ireland's level of public investment, at close to 5 per cent of GNP, is among the highest in the EU and is about twice the EU average. Public investment under the current National Development Plan is targeted at addressing current infrastructure deficits, in order to improve the potential growth of the economy over the longer term. Other productive investment – in Research & Development, Education, Employment Supports and Training and Social Inclusion and Equality – has also increased significantly and is helping to foster the transition

to a knowledge-based society.

Work is ongoing on preparing a new National Development Plan (NDP) for the period 2007-2013 (when the current plan expires at end of 2006). This NDP will seek to address the investment now necessary to maintain national economic competitiveness within a sustainable economic and budgetary framework and will set out a new strategy for economic and social public capital and human capital investment, including R&D.

The Dublin Docklands Development Authority has identified infrastructural issues as a central element in the regeneration of the docklands area. Among the initiatives in their current strategy are:

- to ensure the sustainable expansion of the financial services cluster in docklands through the continuing provision of office space for financial services and ancillary companies in Docklands, North Lotts and Grand Canal Harbour areas;
- to promote a good quality of life for Docklands residents providing affordable living space for workers and their families, making it attractive for staff to locate close to

- where they work; and
- to promote the supply of graduates to the international financial services industry through educational courses in the docklands National College of Ireland and other educational institutions.

Government Support and Partnership

The support of the Government has been present since the beginning of the IFSC in 1987. The international financial services industry has grown and developed with the support and assistance of Government Departments and Agencies, primarily through the role of the Clearing House Group, which operates under the aegis of the Department of the Taoiseach. This partnership between the industry and the public sector has taken various forms, including:

- providing a forum to allow matters affecting the industry, to be dealt with in close co-operation with the public sector;
- the identification of issues at international level, including the transposition of EU Directives and the interpretation of EU Regulations which require a collaborative effort between the

- industry and the relevant Government Department or State Agency;
- the opportunity to input each year, through the IFS Tax Group into the work being carried out in the preparation of the Finance Bill;
- supporting the position and reputation of Ireland at international conferences, both at home and abroad, by taking the opportunity to speak and outline the Irish case in a positive way; and
- allowing a close relationship to develop between the industry and the Financial Regulator which enables such issues as the authorisation process to become more streamlined. It also provides an opportunity for real dialogue to take place which is beneficial to both sides in resolving potential issues of conflict.

The Government will continue to encourage the international financial services industry to grow and develop, and in a spirit of partnership, will afford it the opportunity for further expansion.

Policy Consistency

It is important for the smooth development of the international financial services industry that the

industry engages in a process in which Government Departments, State Agencies and the industry work in a mutually complementary and supportive way.

The Enterprise Strategy Group Report, Ahead of the Curve stated that “it is crucially important that policies in these areas be developed and implemented

in a coherent, integrated way and that the policy making process be focussed, agile and responsive to ever changing conditions”.

This interaction between the industry and the Government Departments and agencies has been a feature of the relationship which has developed over many years and is one in which both

sides have achieved mutual benefits. The Clearing House Group will continue to monitor policy developments and their impact on the international financial services industry. This process of engagement between industry and the various public sector bodies works towards a level of policy consistency that is beneficial for both sides.

appendices



Appendix A

Membership of the Clearing House Group

Ms. Marian Beakey,
Department of the Taoiseach
(Secretary)

Mr. William Beausang,
Department of Finance

Mr. Walter Brazil,
AIB Capital Markets

Mr. Gavin Caldwell,
Pensco

Mr. Kevin Cardiff,
Department of Finance

Mr. Denis Casey, Irish Life &
Permanent

Mr. Michael Deasy,
Financial Regulator

Mr. Denis Donovan,
Bank of Ireland

Mr. Sean Dorgan, IDA Ireland

Mr. David Dillon,
Dillon Eustace Solicitors

Mr. Colm Doherty,
AIB Capital Markets

Mr. Sean Gorman,
Department of Enterprise,
Trade and Employment

Ms. Muriel Hinch,
Revenue Commissioners

Mr. John Larkin,
William Fry Solicitors

Ms. Deirdre Lyons,
IDA Ireland

Mr. Paul Maloney,
Dublin Docklands
Development Authority

Mr. Frank Mullen,
Revenue Commissioners

Mr. Dermot McCarthy,
Department of the Taoiseach
(Chair)

Mr. Michael J. McGrath,
Department of Finance

Mr. Pat Neary,
Financial Regulator

Ms. Aileen O'Donoghue,
Financial Services Ireland

Mr. Michael J. Ryan,
Merrill Lynch

Mr. George Shaw,
Department of the Taoiseach

Mr. Willie Slattery,
State Street International

Mr. Pat Wall, PWC

Appendix B

Role of Higher Education

The role of higher education and research in the transformation of Ireland's economy is widely accepted. IDA Ireland summarises its role succinctly in its marketing campaign to foreign companies - "Ireland - Knowledge is in our nature". The establishment and maintenance of a strong educational system, and the rapid increases in participation in third level education, (from c. 11 percent of the school leaving age cohort in 1965 to c. 54 percent today) have underpinned wider national strategies for economic and social development. The National Competitiveness Council has also acknowledged that "Ireland's investment in education has played a central role in the economic growth experienced over the past decades"¹.

The higher education sector has played a critical role in delivering the recommendations of the Expert Group on Future Skills Needs, through the increased provision of third level places, in sectors such as ICT, engineering, biomedicine,

construction and the sciences. The health sector is another area where higher education has responded to a range of skills needs in areas such as physiotherapy, occupational therapy, speech and language therapy, pharmacy and social work.

At a more general level, the higher education and research sector is a crucial component in creating an attractive base for investment in Ireland. In the Foreword to the Report of the Expert Group on Future Skills Needs (October 2003) the Tánaiste stated "the a priori provision of an appropriate skill set is a key mechanism for stimulating a particular economic sector and attracting Foreign Direct Investment."

In its research policy document ("Creating and Sustaining the Innovation Society"¹) the HEA noted that Ireland has in the past been successful in competing as an investment driven economy. In order to secure our basis for competitive advantage in the long term, the HEA and others have argued that the move to

an innovation society is essential. The future sources of competitive advantage in Ireland will be found to a very considerable extent in human resources. This demonstrates that the education system must be the key driver of Ireland's competitive advantage. The aim of future policies must be to create a new, competitive advantage for Ireland in human capital through investment in higher education and research.

The essential role of the higher education sector in driving industry and economic development was reiterated in the report of the Enterprise Strategy Group³. The Group stressed the need to upskill the general workforce and achieve distinction in the quality of our graduates from higher education. Recommendations were made for the development of ambitious targets for the improvement of education and skills attainment across all levels. The Group was of the view that it would be necessary to increase the number and quality of higher education graduates at all levels. In doing so, lifelong skills development must

1 NCC Statement of Labour Supply and Skills, 2000

2 Published in 2001.

3 ESG Report: *Ahead of the Curve: Ireland's Place in the Global Economy* - July 2004

become progressively more important. The fast-changing nature of the workplace requires people to be flexible and adaptable.

The Enterprise Strategy Group stated that in order to further our economic development and become a knowledge society, our higher education sector should be positioned in the top decile of OECD countries. This is a challenging target and builds on the Government target adopted in 2000, i.e. that

our higher education sector should be in the top quartile of OECD countries⁵.

Another very graphic illustration of the role and importance of higher education can be found in the recent FÁS/ESRI study of labour force projections to 2010⁶. That report found that the number of persons in employment in the State with third level qualifications increased from 235,000 in 1991 to over 480,000 in 2001. Looking to the future,

the report estimates that this number will need to rise to nearly 680,000 in 2010. The study found that an attrition outflow of some 106,000 is likely over the period. This, when taken with the projected net increase, suggests a third level labour force inflow requirement of just over 300,000 over the period from 2001 to 2010. These findings illustrate the magnitude of demand for higher education skills in the Irish economy.

5 Arising from the recommendation of the Report of the Review Committee on Post Secondary Education and Training Places, 1999

6 FÁS/ESRI Manpower Forecasting Studies No. 11, Occupational Employment Forecasts by Region for 2010 (2004)