



Central Bank of Ireland Publishes Discussion Paper on ETFs

On 15 May 2017, the Central Bank of Ireland (“**Central Bank**”) published a [discussion paper](#) (the “**Discussion Paper**”) in relation to exchange traded funds (“**ETFs**”). The primary purpose of the Discussion Paper is to facilitate engagement by the Central Bank with industry participants in relation to their views on key areas of importance to ETFs, and we understand that it should be seen as an information gathering exercise.

The Central Bank has advised that it has no set outcome in mind from the Discussion Paper and that no amendments to their existing rules or guidance in relation to the regulation of ETFs are being proposed directly on foot of the Discussion Paper. Equally, the Central Bank has highlighted that just because they have addressed a potential risk in the Discussion Paper, it should not be understood as meaning that they have concluded that this is a risk which requires regulatory action. These two elements are reflected in the open nature of the specific questions posed in the Discussion Paper and that respondents are also encouraged to offer their views on any of the other matters addressed in the Discussion Paper.

Areas Covered by the Discussion Paper

The Discussion Paper considers three overarching themes:

- (1) **Investor expectations**, through looking at what it means to be an end investor in an ETF and whether such investors understand the investment they are making;
- (2) **Liquidity**, through examining the functioning of the secondary market and the role of authorised participants and market makers in supporting the liquidity of the ETF shares themselves and also through looking at the possibility of ETFs affecting the liquidity of the markets in which they invest; and
- (3) **Increasing popularity**, through questioning whether the growth in use and assets of ETFs and their adoption by new types of investors raise questions which should be considered by regulators and industry.

Responses to the Discussion Paper

The Central Bank has requested responses to the Discussion Paper by **11 August 2017**.

Matheson intends to respond to the Discussion Paper and we would welcome any feedback which you would like to provide for inclusion in this response. We encourage you to respond to the Central Bank (either directly or as part of our response), as we believe that the Discussion Paper presents an excellent opportunity to contribute to the Central Bank’s future thinking on ETFs in a positive way.

Comment

Matheson very much welcomes the publication of this Discussion Paper and view it as a positive development in formulating the future direction of the Irish ETF industry. The Discussion Paper follows an extensive period of consultative meetings between the Central Bank and ETF market participants and we would encourage all market participants and users of ETFs to consider contributing responses to this paper. We believe that this publication illustrates the Central Bank's continued recognition of the importance and size of the Irish ETF industry and its commitment to continue to provide appropriate regulation of this sector of the Irish funds industry. Ireland continues to be the domicile of choice for European ETFs providers with approximately €300 billion of ETF assets under management, representing almost 60% of the European ETF market, more than treble the market share of each of its two closest competitors, Luxembourg (17%) and Germany (13%).

It is evident from the Discussion Paper that the Central Bank has carefully considered various issues which are of key importance to the operation of ETFs and which merit consideration and discussion to ensure the regulatory landscape for ETFs in Ireland remains best in class. In particular, we welcome the Central Bank's decision to structure this Discussion Paper as an information gathering exercise which we believe will ensure the Central Bank has the opportunity to be at the forefront of shaping the future international regulation of the ETFs. The Discussion Paper notes that the Central Bank estimates that there may be more than €800 billion of ETF assets under management in Ireland by 2021. Given the current size and the expected future growth of this market, it is very welcome that the Central Bank has issued this comprehensive paper and requested the views of market participants to assist in shaping the regulatory future of ETFs.

As outlined above, we will be submitting a response to this Discussion Paper which will be led by Philip Lovegrove who is the vice chair of the Irish Funds ETF industry working group and was actively involved in the industry discussions with the Central Bank on the Discussion Paper and we would welcome the input of market participants in relation to this response. We will be communicating with clients and partners in more detail in respect of the Discussion Paper in due course, however, if you have any queries or comments on the Discussion Paper in the meantime, we would be delighted to discuss these with you.

Please get in touch with your usual Asset Management and Investment Funds Group contact or any of the contacts listed in this publication should you require further information in relation to the material referred to in this update.

Full details of the Asset Management and Investment Funds Group, together with further updates, articles and briefing notes written by members of the Asset Management and Investment Funds team, can be accessed at www.matheson.com.

Contacts



Tara Doyle

PARTNER

D +353 1 232 2221
E tara.doyle@matheson.com



Michael Jackson

MANAGING PARTNER

D +353 1 232 2000
E michael.jackson@matheson.com



Dualta Counihan

PARTNER

D +353 1 232 2451
E dualta.counihan@matheson.com



Joe Beashel

PARTNER

D +353 1 232 2101
E joe.beashel@matheson.com



Anne-Marie Bohan

PARTNER

D +353 1 232 2212
E anne-marie.bohan@matheson.com



Shay Lydon

PARTNER

D +353 1 232 2735
E shay.lydon@matheson.com



Liam Collins

PARTNER

T +353 1 232 2195
E liam.collins@matheson.com



Philip Lovegrove

PARTNER

D +353 1 232 2538
E philip.lovegrove@matheson.com



Elizabeth Grace

PARTNER

D +353 1 232 2104
E elizabeth.grace@matheson.com



Oisín McClenaghan

PARTNER

T +353 1 232 2227
E oisimcclenaghan@matheson.com



Michelle Ridge

PARTNER

T +353 1 232 2758
E michelle.ridge@matheson.com



Barry O'Connor

PARTNER

T +353 1 232 2488
E barry.oconnor@matheson.com

The material is provided for general information purposes only and does not purport to cover every aspect of the themes and subject matter discussed, nor is it intended to provide, and does not constitute, legal or any other advice on any particular matter. The information in this document is provided subject to the Legal Terms and Liability Disclaimer contained on the Matheson website.

Copyright © Matheson