

A tale of two halves

Clearstream has opened its first investment fund services branch in Ireland. Client demand and timing were the motivating factors for the company to take on Luxembourg as a European centre for excellence

CLEARSTREAM, THE MARKET infrastructure provider, opened an investment fund services branch in Ireland on November 29, 2012. It was a significant step for two reasons.

Not only was the branch, which is based in Dublin, the company's first offering aimed at hedge funds, it was also the first time Clearstream, a subsidiary of the Deutsche Boerse and more commonly associated with Luxembourg, had established an office in Ireland, so commonly painted as the arch rival to Luxembourg in the competition to be a European funds centre of excellence.

For Bernard Tancre, executive director, head of business solutions at Clearstream, there were two clear drivers for the project. The first was client demand.

"We were unable to accept hedge funds onto our Vestima platform because of their complexity," says Tancre, "so we wanted to extend our model so that the platform could be a one-stop shop for mutual funds, ETFs and hedge funds. Vestima has had a huge impact for the mutual funds of our clients in terms of efficiency and risk management and we wanted to deliver the same service for hedge fund clients."

The second driver was the timing, with the imminent introduction of the Alternative Investment Fund Managers Directive (AIFMD) and the continuing shift in terms of



greater institutional investor interest in alternative funds. "This creates a new dynamic in the sector."

CHOOSING IRELAND

There is also a practical reason for locating the branch in Ireland, says Tancre.

"Processing hedge funds is completely different. Mutual funds are highly automated whereas there is still a huge reliance on manual processes with hedge funds so that is why we thought of Ireland because of the expertise that is here."

Opening a new branch: Recent changes are driving his company to Ireland, says Bernard Tancre, the executive director at Clearstream

There are also a large number of service providers based in Ireland. According to Tancre, one of the most notable differentiators with Vestima's mutual funds platform has been the ability to integrate with underlying transfer agents and to position Clearstream as a central hub that can link clients with transfer agents. "We are looking to do the same thing with our hedge fund processing and that means forming partnerships with the hedge fund administrators."

The Dublin office has now been operating for six months and currently employs 15 people. It has also picked up 10 clients so far. These range from existing clients in Germany and Swiss private banks looking to expand their partnership with Clearstream to new clients such as a Jersey-based investment manager that has both mutual funds and hedge funds and is looking for a one-stop shop and one provider that can do all of its servicing.

Tancre has also been very satisfied with the response that Clearstream has received from the Irish market in its first six months. "We have got the reception that we expected. There is a good workforce in terms of experience and expertise and we have had the support of the investment offices and this has enabled us to develop our network so we are very happy."

"We are on target in terms of development and will be announcing further initiatives later this year. It has been a gradual start but we are hoping to change gear and develop more quickly. We have the capacity to absorb more business and by end of the year we plan to employ between 30 and 40 people with the long term aim to be employing more than 100 people."

In addition to the development of the hedge fund processing centre, the other major focus for Clearstream's Ireland operations is the AIFMD and its implications. "The directive is generating a lot of additional constraints for the industry in terms of the custody and depositary roles. As an international central securities depositary (ICSD), we are getting a lot of requests about what our positioning will be and I think we are in a good position to help them.

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BERNARD TANCRÉ
Executive Director, Clearstream

"As an ICSD we are considered as a safer entity and one that offers greater asset protection than other market participants and rightly so because of the greater supervision that we are subject to as a market infrastructure provider. We are also beefing up our offer so that we can give depositary banks and prime brokers access to the full range of eligible assets that we have within Clearstream. We are in the process of discussing that and shaping a specific product that will help the market to meet its increased obligations."

REGULATIONS

The AIFMD is bringing something new to the industry in terms of the relations between various service providers. "Depositary banks never really considered TAs to be a counterparty risk and AIFMD is changing that. If the depositary bank has a counterparty risk concern with a TA, it needs to tell the asset manager. I think managers and service providers can rely on us to mutualise this process," says Tancre.

Whenever a new regulation of the size of the AIFMD is issued, every domicile will look to be well positioned and Ireland is no different, says Tancre. "I don't think the AIFMD on its own will revolutionise the market in Ireland but it will reinforce it. In the short-term I

don't think there will be a shift to other domiciles. If you look at Ucits, it was not until a new version of the rules came out that you could judge the effect of the previous rules. Managers are often prudent when it comes to regulatory changes."

Nevertheless, Ireland has many things in its favour when it comes to the AIFMD, says Tancre. "It has hedge fund expertise, it is in Europe and it has regulated funds." Another possible change from the AIFMD is that hedge funds will be required to appoint a depositary bank. If their current administrator also has a depositary bank capability, then the solution is straightforward but there are several smaller administrators that do not have that capability and this could lead to a concentration in the market and more business for the larger hedge fund administrators, many of which are based in Ireland, says Tancre.

And what is good news for Ireland in terms of hedge funds, is good news for Clearstream and its Dublin office. "There are regulations with many challenges, but plenty of opportunities for us. Every player needs to look at them and there is a general demand for greater efficiencies so we are able to have conversations about what we can bring in terms of cost savings and better risk management." **fe**