

Has the Dublin administration scene really changed?

By Dermot Butler

Dublin has a well-earned reputation as a financial services centre, and particularly as a centre for the administration of both traditional mutual funds and hedge funds.

The hedge fund market has grown by leaps and bounds over the past few years, leading to what many have described as the consolidation of the hedge fund administration industry in Dublin.

In fact, this has not actually taken place. What has happened is that many of the big, institutional administrators of traditional funds, which for the most part are institutions in their own right, have acquired smaller specialist hedge fund administrators. But acquisition is not consolidation.

One possible exception is the recent acquisition by BISYS of R & K Consulting, the former administration arm of the specialist US hedge fund audit firm, Rothstein Kass. This appears to have been a consolidation primarily of a large US practice - albeit combined with a smaller offshore practice - into the predominately offshore hedge fund practice of BISYS, which acquired Hemisphere several years ago.

On the face of it, the hedge fund administration business in Dublin appears to have changed, but only because we have said goodbye to Bank of Bermuda, Hemisphere, IMS, IMA, DPM and Tranaut. But all that has actually happened is that these companies have changed their names.

There is no doubt that all these companies that have been taken over by larger institutions, have had the opportunity to benefit from substantial economies of scale, with particular regard to back-up staff in areas such as legal, internal audit,

human resources and secretarial.

What is indisputable is that hedge funds administration requires a skill set distinct from the administration of vanilla long-only mutual funds. As a result, most of the new 'institutional' hedge fund administrators seem still to be operating much as they did before, albeit with some concession to their new parent's culture.

What has, in effect, happened is that the likes of HSBC, BISYS, BoNY, JP Morgan and State Street now have a specialist hedge fund administration division in addition to their traditional fund services businesses. There has not, in fact, been a shrinkage or consolidation of hedge fund administrators - they are merely wearing a different coat and have a different name.

Obviously there are enormous advantages for a hedge fund administrator in being associated with a big institution, in terms of credibility, capital, and the ability to service the institutional market. But does that mean that the smaller independent administrators, without the backing of an institution, should worry about their future? In a word, "no".

It is increasingly obvious that the new 'institutional' hedge fund administrators are targeting the institutional market, but this is likely to be at the expense of smaller managers and hedge funds. In some cases this means that start-ups with USD 50m to USD 100m will have to seek out smaller administrators, and some existing clients of newly 'institutional' administrators may also be seeking a new home, voluntarily or otherwise.

This is further proof, if it were needed, that change brings with it opportunity. ■



Dermot Butler, Chairman,
Custom House Administration



Somerville, Dublin could make itself more attractive as a domicile by introducing different classes of fund. He says: "There could be variations in regulation depending on the investor profile, minimum investment size or the investor's minimum net worth. There could be interest in funds regulated by IFSRA but otherwise similar in substance to Cayman funds."

Otherwise, argues Custom House chairman Dermot Butler, the higher cost of operating in Dublin is likely to deter many managers. "Domiciling a fund in Dublin is more expensive and takes longer than setting up a fund in Cayman or the BVI, and in certain areas it is more restrictive regarding assets," he says.

"This means that to be viable, Dublin funds need to be bigger, but bear in mind that most hedge funds have capacity constraints. I don't think Ireland will ever become a leading hedge fund domicile, unless the EU makes it more difficult for non-European funds to be sold in Europe." Could a UCITS IV directive that eased pan-European distribution of hedge funds make a difference?" says Butler: "Not in my lifetime!"

BISYS managing director Ronan Daly is

"Positioning your fund within the EU may be a very sensible long-term plan"

also sceptical. "Unless there is some enormously significant change to legislation, I can't see Dublin becoming the jurisdiction of choice," he says. A particular problem, he says, is the regulatory requirement for a fund to have an Irish custodian or trustee to oversee the assets, even though most hedge funds' assets are held by their prime broker. This leaves the trustee with extensive potential liabilities for which it is not properly compensated.

"Because the way the rules are drafted, the trustee is on the hook if anything goes wrong with the assets, which are actually being held somewhere else," Daly says. This would be financially attractive only if the trustee made money elsewhere, for example if it also owned the fund's prime broker or administrator.

Otherwise, he says, the industry would have to pay the trustee a significant fee to carry out its duties, but "this would again leave Dublin at a financial disadvantage to somewhere like Cayman". But Daly concludes: "The domicile issue is a bit of a red herring. The domicile of the fund matters enormously to the law firms, but it doesn't matter greatly to anyone else." ■