Common Contractual Fund

Assets of Irish CCFs surpass $100 billion for the first time

pwc

Contractual Fund

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The Irish Common Contractual Fund (“CCF”), an Irish domiciled, regulated, tax transparent pooling vehicle, is fast becoming the vehicle of choice for many institutional investors.

Over the past 3 years, assets under management of CCFs have increased by 150% from $40 billion to over $100 billion as of 31 August 2019.

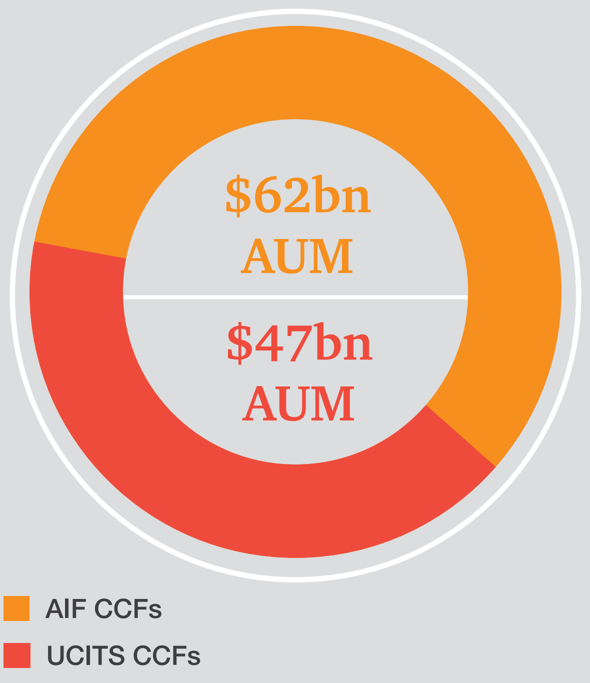
The total number of authorised sub-funds exceeds 200; a combination of AIFs and UCITS funds.

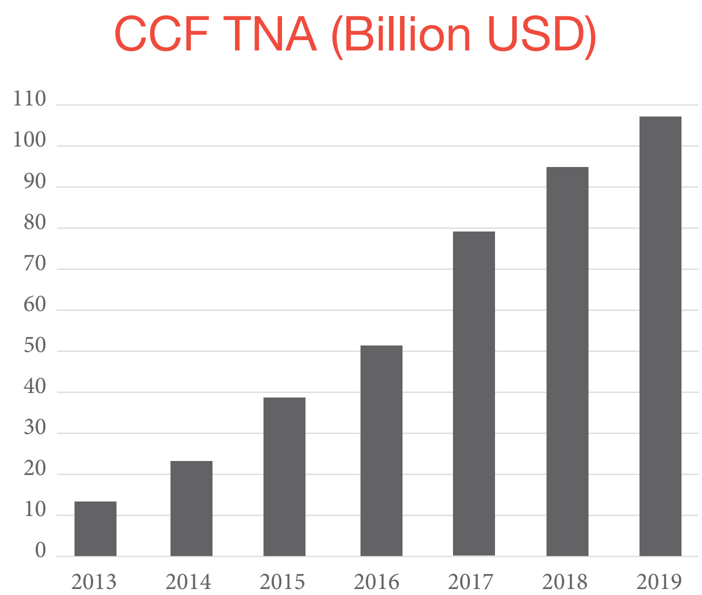
The growth of CCFs has been driven by a number of factors, including:

- investors becoming increasingly tax savvy and looking at ways to manage pooled investments while preserving their tax profile/status and seeking to access the same double taxation treaty benefits which would have resulted from investing directly in the underlying assets/securities.
- broader base of investors using CCFs outside of the traditional pension funds, such as Government bodies, insurance companies and other institutional investors.
- increased geographical reach of CCFs to investors outside of the traditional UK and Dutch investor base to countries such as South Africa, Australia, Canada, New Zealand, Switzerland, the Netherlands, Germany and a number of the Scandinavian countries, where investors are committing relatively large volumes of assets to these vehicles.
- increasing margin pressure on managers and focus on tax efficiency to enhance investment returns for investors.
- onshoring of offshore structures into CCFs, driven by the global changing tax landscape, regulatory environment and investor demand.

Some of the recent OECD tax changes have also positioned CCFs favourably, most notably the introduction of the Multilateral Instrument (“MLI”), which overlays and modifies existing double tax treaties. The MLI has resulted in Irish CCFs gaining increased tax efficiencies in certain markets, where transparency was not recognised in the past, further increasing the tax savings from investing through a CCF structure.

In general, the tax savings to be gained from using a CCF structure vary depending on a number of factors such as the investor type (pension, institutional, Government body or other), the investment strategy (equity, bond, derivatives) and investment markets. Estimated annual tax savings for a pension fund investing in an MSCI World type global equity portfolio via a CCF structure compared with an opaque fund could be as much as 40 basis points for some investors. With the continued pressure on margin, continued focus of investors on enhancing returns and increasing education on tax leakage within investment structures, CCFs are fast becoming the vehicle of choice for many institutional investors.





Source: Central Bank of Ireland, figures accurate as at 31 August 2019

The benefits of a CCF

There are a number of important benefits in using a CCF, such as;

1. Reduced costs for pooled assets
2. Consistent investment management across a larger pool of assets
3. A greater level of oversight, control and risk management for trustees and fund participants
4. Multiple unit classes can be issued
5. Value Added Tax (VAT) typically not applicable to the CCF
6. Significant tax savings compared to opaque funds

How PwC can help?

- **Feasibility Assessment:** We can review an investment strategy and investor base and ascertain based on the profile of the investors and the underlying assets of the fund the tax saving that could be achieved by means of having a tax transparent fund structure as opposed to an opaque fund strategy.

- **Review structure documentation:** Once an appropriate structure has been decided upon, we can assist in reviewing the constitutional documentation to ensure the principle of transparency is preserved and that VAT and capital costs are minimised.

- **Determine rulings / opinions necessary for an investor / investment perspective:** Requisite support from our global network is obtained when issuing necessary opinions, rulings or confirmations in the local investor and investment jurisdictions to ensure that the investors' tax position remains the same as if they had invested directly.

- Once a CCF has been established, PwC can provide recurring **advisory, accounting, regulatory and tax compliance services** to the CCF and its Management Company.

- PwC can also **assist clients with existing CCFs** to share in the potential benefits arising from recent EU withholding tax case law. With the increased focus on the maximisation of income returns as well as a move towards an efficient and cost-focused product, the CCF is well positioned to meet the asset pooling needs of the asset management and pension industries.

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