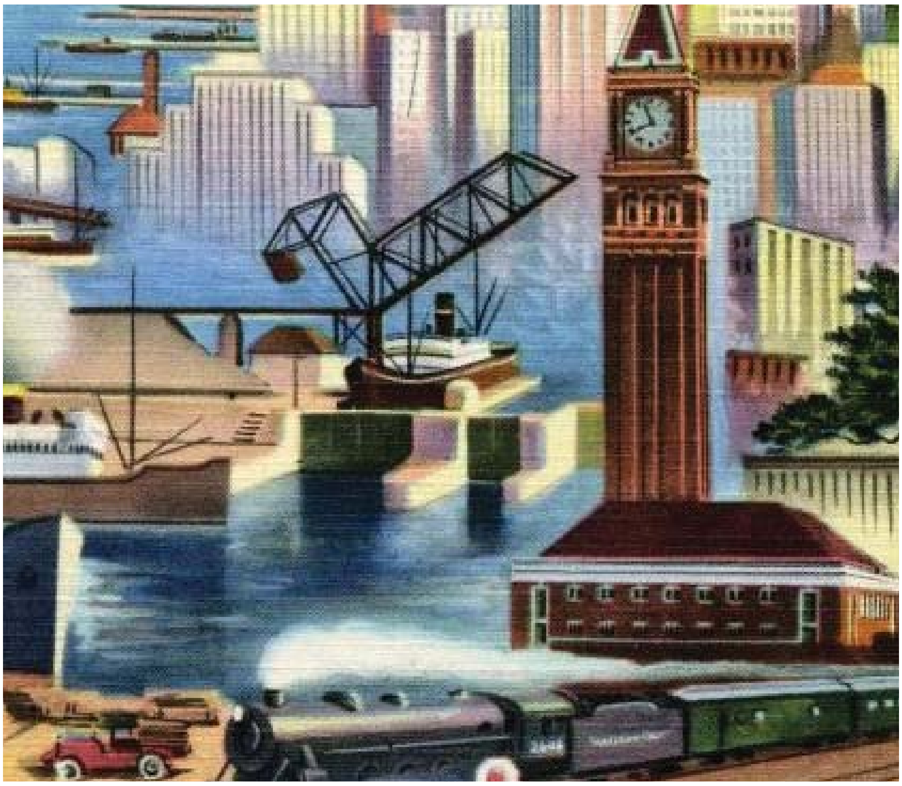
VOL 22 NO 9 DECEMBER 2008

FINANCE

WWW.FINANCE-*magazine.com*

Ireland's stockbrokers rated



Goodbody clear winner in overall firm rankings

The FINANCE 2008 Stockbroking Survey has clear wins for Goodbody in the overall firm equity categories and Bloxhams in the bonds categories: *pages 4 - 16;* Goodbody just beat Merrion in the individual analyst rankings with seven wins against Merrion's six: *page 6*

The critical importance of hedging now

CORPORATE HEDGING strategies are of critical importance in present financial markets. Advice from leading bankers: *pages 31-42*

Financial employment: bracing for a hit in H1 2009

A FINANCEJOBS.IE symposium sees imminent job cuts, but also hopes for a better second half: *page 51*

Class war from Merrion Street
Brian Daly pinpoints further examples of the anti-wealthy and anti business approaches of Government in the Finance Bill: *page 24*

Property gets back to basics
Frank O'Neill predicts a return to rational analysis: *page 45*

Overweight on property
Corporate recovery options for those heavily exposed to property: *page 47*

The shape of M & A in Ireland in 2009
David Baxter points to areas for opportunity in the post-crunch M&A market: *page 48*

HAPPY CHRISTMAS
to all our readers

Make or break year

The economic and financial crisis is so deep that the possibility of an early bounce back should still not be relied on. However, the opportunities are becoming apparent, even as short term difficulties persist, such as the failures of leadership at Irish Governmental level, in respect, for example, of errors regarding the banking system recapitalisation, and, the Finance Bill which has compounded the macro-economic errors of the Budget (See page 24). Nevertheless, the process of rebuilding should begin without delay.

This is evident in the views of a group who inhabit the eye of the financial storm, writing in our forum of stockbroking leaders, which is part of the 2008 Finance Stockbroking survey, starting on page 4. They all know that the old model is changing, and that the market should move on to build on the strengths of the world class companies that exist in Ireland, and to embrace new and possibly more expensive modes of operation, such as direct market access. This will benefit all, not least those whose pensions have been tied up in one of the world's worst performing markets in the past two years.

Opportunity is evident too from a perusal of the forecasts for the corporate finance market by David Baxter, whereby deals may be done in 2009 in zones where execution risk can be minimised for vendors, and acquisition risk for buyers. Indeed, this may be an area where we see auctions return in 2009, before even the property market perhaps.

Opportunity will present itself to those who are best positioned, with cash, and/or credit lines to do so. In the present environment, quality investors will need to pay particular attention to maintaining this position, hence the importance of treasury in all operations. The third part of our Autumn/Winter Treasury Series, starting on page 31 provides much food for thought over the year end.

Gloom and worry of course will persist in the financial services employment market in the short term. And, as our survey on page 51 shows, this can be expected to reach full intensity in the early months of the new year. As the panel indicates, the darkest part of the market will be the domestic banking and retail financial services sectors, while some IFSC sectors are expected to continue to show the losses that had already become evident during the course of 2008.

These trends are shown in the number of job vacancies advertised on FINANCEJOBS.ie, which are down by more than half in the past nine months. However, on the plus side, for financial services employers, the traffic on that site, and the number of job applications on the site have surged in the same period, indicating that, going forward, the supply of quality skilled financial services staff is now greatly improving, and that represents another opportunity for financial services employers capable of taking up the opportunities to hire quality staff that even a year ago could only have been dreamed of.

Contents

Vol 22 No 9 December 2008

Mattimoe, Analyst of Year

Ciaran Kane, Barclays Ireland Head of Treasury

David Baxter

Michael Quinn

Fintel Publications Limited, Fintel House,
6 The Mall, Beacon Court, Sandyford, Dublin 18.
Telephone: 293 0566 **Fax:** 293 0560
E-mail: editorial@finance-magazine.com
Websites: www.finance-magazine.com www.financejobs.ie
To subscribe: www.finance-magazine.com/order_sub.php
ISSN 0790 8628

Editor: Ken O'Brien
(kob@finance-magazine.com)
Managing editor: Kennedy O'Brien
(kedob@finance-magazine.com)
Features editor: Geraldine Pollock
(gp@finance-magazine.com)
Operations manager: Mark McKillen
(mmck@finance-magazine.com)
Research manager: Dustin O'Neill
(don@finance-magazine.com)

Sales manager: Valerie Hannigan
(vh@finance-magazine.com)
Marketing executive: Martina Bermingham
(mb@finance-magazine.com)
Design: Catherine Bodey
(artwork@finance-magazine.com)

FINANCE
WWW.FINANCE-magazine.com

Stockbroking Survey 2008

Goodbodys a clear leader in 2008

This year has seen the largest vote in the twenty two year history of the FINANCE Stockbroking Survey of Institutional Investors from which Goodbody stockbrokers have emerged as clear winners. Goodbody win ten of the twelve equity categories. NCB stop a clean sweep by Goodbody by taking both the 'Technical Analysis' and 'Best International Research (Excluding Irish Equities)'. Davy place in second position in the overall firm ratings with nine second place finishes. Merrion come in second place in five categories. And Bloxham get a clean sweep in bonds.

This year's results have proved to be a resounding victory for Goodbody by winning ten of the twelve equity categories for best firm. It also came first in winning 9 individual categories, against 8 for Merrion, who performed better in the personal analyst and dealers categories than they did as a firm.

Although Davy won only one category (Best Equity Book) it is still positioned in second place, in terms of its voting strength in key categories, such as Overall Equity Research, where it garnered 16.9 p.c. of the total vote (against 19.1 p.c. for Goodbody, and 15.9 p.c. and 15.4 p.c., respectively, for Merrion and NCB).

This category also illustrates the two-tier nature of the market, with the four other firms closely competing for the honours in the second tier.The breakdown in the Best Irish EquityResearch Overall category for second tier firms was: Collins Stewart 9.8 p.c., Bloxham 9.2 p.c., Citi 7.2 p.c., and the re-branded RBS (formerly ABN AMRO) 6.5 p.c.

2008 may be a year to forget for the industry with some harsh realities to accept going into 2009. Comments made by respondents to the survey would indicate 2009 or the near term future may look bleak as investors still no longer see Ireland as a buy. 'Ireland is becoming a much smaller part of our universe' says one survey participant and 'Ireland has occupied less of my time this year as I am a long only manager and the market is very small' said one fund manager whose comments indicate perhaps the most interested parties in certain Irish stocks, notably banks, have been short sellers.

The vote for the survey this year increased by 59 per cent based on the number of institutions who voted. The number of unique institutions who voted is 227. These broke down into 31.8 p.c. hedge funds, and 68.2 p.c. non hedge funds.

By type of institution, the poll broke down as follows: 54.5 p.c. mutual funds; 12.8 p.c. private banks; 6.2 p.c. insurance and life assurance companies 3.7 p.c. private equity; and the rest, 22.8 p.c. from other groups such as portfolio and asset managers, sovereign wealth funds, large pension funds, state owned banks and corporate traders. The full methodology behind this year's survey is set out on page 16.

NCB keep Goodbody from dishing out a whitewash in all equity categories. NCB's expertise stands to them in Best International Research (Excluding Irish Equities) and Technical Analysis.

On the bonds side Bloxham have overtaken Davy sweeping the board by winning in all categories.

Goodbody also perform well in the individual analyst awards taking seven of the categories which is up from last year when they won four of the individual 'firsts'. In the individual categories Merrion come just behind Goodbody performing strongly with six wins. On a related note, NCB announced earlier this month that it is to become a market maker in up to 40 Irish quoted companies. NCB joins both Davy and Goodbody as market makers the move is expected to increase liquidity in the Irish equity market.

Overall, Goodbody won 20 "firsts", against 10 for Merrion, 2 for NCB, 1 for Davy, and 1 for Collins Stewart.

Best Irish Equity Research Overall

	2008	2007	2006
Goodbody	1	2	2
Davy	2	3	1
Merrion	3	1	3
NCB	4	4	4
Collins Stewart	5	5	6
Bloxham	6	6	7
Citi Smith Barney	7	7	-
RBS*	8	8	5

Best for Ability to Deal in Size

	2008	2007	2006
Goodbody	1	2	-
Davy	2	1	-
NCB	3	3	-
Merrion	4	4	-
Bloxham	5	8	-
Collins Stewart	6	7	-
RBS*	7	5	-
Citi Smith Barney	8	6	-

Best Overall Financials Research Service

	2008	2007	2006
Goodbody	1	1	1
Davy	2	3	2
Merrion	3	2	4
NCB	4	4	3
Collins Stewart	5	5	6
Bloxham	6	6	7
Citi Smith Barney	7	7	-
RBS*	8	8	5

Best Sales Execution

	2008	2007	2006
Goodbody	1	4	-
Davy	2	1	-
Merrion	3	2	-
NCB	4	3	-
Bloxham	5	8	-
Collins Stewart	6	5	-
RBS*	7	6	-
Citi Smith Barney	8	7	-

Best Equity Sales Service

	2008	2007	2006
Goodbody	1	4	2
Davy	2	1	1
Merrion	3	2	4
NCB	4	3	3
Bloxham	5	6	7
Collins Stewart	6	5	6
RBS*	7	7	5
Citi Smith Barney	8	8	-

Best for Objectivity of Equity Research

	2008	2007	2006
Goodbody	1	4	2
Merrion	2	1	1
Davy	3	3	4
NCB	4	2	3
Bloxham	5	7	7
Collins Stewart	6	5	5
Citi Smith Barney	7	6	-
RBS*	8	8	6

Best Overall Small & Mid-Cap Research Service

	2008	2007	2006
Goodbody	1	2	1
Merrion	2	3	4
Davy	3	1	2
NCB	4	4	3
Bloxham	5	5	7
Collins Stewart	6	6	5
RBS*	7	7	6
Citi Smith Barney	8	8	-

Best Back Office/Settlement Service

	2008	2007	2006
Goodbody	1	3	2
Merrion	2	2	4
Davy	3	1	1
NCB	4	4	3
Bloxham	5	5	6
Collins Stewart	6	7	7
RBS*	7	6	5
Citi Smith Barney	8	8	-

Best Economic Research

	2008	2007	2006
Goodbody	1	2	1
Davy	2	1	2
Merrion	3	4	4
NCB	4	3	3
Bloxham	5	6	6
Citi Smith Barney	6	7	-
Collins Stewart	7	5	7
RBS*	8	8	5

Best Technical Analysis

	2008	2007	2006
NCB	1	1	1
Goodbody	2	5	3
Merrion	3	2	4
Collins Stewart	4	3	6
Davy	5	4	2
Bloxham	6	7	7
Citi Smith Barney	7	6	-
RBS*	8	8	5

Best Overall Construction & Building Materials Research Service

	2008	2007	2006
Goodbody	1	3	1
Merrion	2	1	3
Davy	3	4	4
NCB	4	2	2
Collins Stewart	5	8	6
Bloxham	6	7	7
Citi Smith Barney	7	5	-
RBS*	8	6	5

Best International Equity Research (Excluding Irish Equities)

	2008	2007	2006
NCB/ESN	1	1	1
Merrion/Kepler	2	3	3
RBS*	3	2	-
Davy	4	4	2

**formerly ABN AMRO, all results prior to 2008 refer to ABN AMRO*

Analysts prove themselves in difficult circumstances

In a performance which reflects the overalll firm ratings, Goodbody's analysts have taken seven of the analyst categories, up from last year when they won four of the individual firsts. Merrion come just behind Goodbody performing strongly with six wins. Davy show their strength in all the categories with nine top three placings in the eleven cateogories.

Best equity strategist
Liam Boggan wins for the first time for Merrion the major award of 'Best equity strategist'. Goodbody also show well. Eamonn Hughes comes in second and Dermot O'Leary gets a third place finish. Bernard McAlinden of NCB places well in fourth. The Davy duo of Barry Dixon and Rossa White also finish well in fifth and sixth places respectively.

Liam Boggan, Merrion

Financials
Eamonn Hughes from Goodbody retains his title as the best financials analyst. Sebastian Orsi also remains strong and his stronger position in the *Analyst of the Year* award shows the role played by his research report: *Irish Financials a New Reality*. The Davy duo Emer Lang and Scott Rankin show well at third and fourth respectively splitting the Davy vote. Both John Cantwell of NCB in fifth and Alex Potter of Collins Stewart in sixth both improve their positions with the both of them up one place.

Food & Beverages/Agribusiness
The previous superstar of the category Robert Brisbourne moved on to pastures green in the fund management business. This left the title free to be taken up by Liam Igoe of Goodbody who moves up from second place. Gavin Kelleher, new to the category, comes second in a strong first appearance. John O'Reilly also performs well holding on to his position in third. Another notable entry is the return of Gill to the food fray, to take up battle with his old nemesis O'Reily, and Igoe and Kelleher. Gill, the former Goodbody man comes in in fourth place.

Eamonn Hughes, Goodbody

Construction & Building Materials
Robert Eason wins another

Best Equity Strategist

	2008	2007	2006
Liam Boggan, Merrion	1	-	-
Eamonn Hughes, Goodbody	2	-	-
Dermot O'Leary, Goodbody	3	-	-
Bernard McAlinden, NCB	4	3	3
Rossa White, Davy	5	-	-
Barry Dixon, Davy	6	-	-
Kevin McConnell, Bloxham	7	6	6
Damian Roddy, RBS	8	5	-
Ian Richards, RBS	9	-	-

Financials

	2008	2007	2006
Eamonn Hughes, Goodbody	1	1	1
Sebastian Orsi, Merrion	2	2	5
Emer Lang, Davy	3	4	4
Scott Rankin, Davy	4	3	2
John Cantwell, NCB	5	6	-
Alex Potter, Collins Stewart	6	7	-
Christopher Wheeler, NCB	7	-	-
Kevin McConnell, Bloxham	8	-	-
Ian Smilie, RBS	9	-	-
Cormac Leech, RBS	10	-	-

Food & Beverages/Agribusiness

	2008	2007	2006
Liam Igoe, Goodbody	1	2	2
Gavin Kelleher, Merrion	2	-	-
John O'Reilly, Davy	3	3	3
Joe Gill, Bloxham	4	-	-
Paul Meade, NCB	5	4	4
Duncan Fox, RBS	6	-	-
Ian Simpson, RBS	7	-	-

Small & Mid Cap Stocks

	2008	2007	2006
John Mattimoe, Merrion	1	1	2
John Sheehan, NCB	2	2	1
Gerry Hennigan, Goodbody	3	-	-
David Jennings, Davy	4	-	-
Dan Cavanagh, Goodbody	5	-	-
Ross McEvoy, Bloxham	6	-	-

Pharmaceuticals & Biotechnology

	2008	2007	2006
Ian Hunter, Goodbody	1	4	2
Sam Farthing, Merrion	2	-	-
Jack Gorman, Davy	3	1	3
Orla Hartford, NCB	4	2	4
Michael Leacock, RBS	5	-	-

Technology

	2008	2007	2006
Gerry Hennigan, Goodbody	1	1	1
Sam Farthing, Merrion	2	4	-
Barry Dixon, Davy	3	2	-
Michael McMahon, NCB	4	-	-
Didier Scemama, RBS	5	-	-

Airlines

	2008	2007	2006
John Mattimoe, Merrion	1	1	2
Joe Gill, Bloxham	2	3	1
Stephen Furlong, Davy	3	2	4
John Goode, Goodbody	4	-	-
Neil Glynn, NCB	5	4	-
Andrew Fitchie, Collins Stewart	6	6	6
Andrew Lobbenberg, RBS	7	5	5

Gavin Kelleher, Merrion

title for Goodbody beating John Mattimoe of Merrion. Putting in consistently strong showing for NCB, John Sheehan, comes in third position. Florence O'Donoghue of Davy places in 4th up from 5th.

Airlines
Merrion's John Mattimoe keeps the title after taking it from Joe Gill in 2006. Gill of Bloxham places well in second position. Stephen Furlong of Davy is in 3rd.

Support Services
Gavin Kelleher narrowly beats last year's winer John Sheehan. David Jennings of Davy improves from 3rd to 4th.

Technology
Gerry Hennigan from Goodbody retains the category for the 3rd year. Sam Farthing increases to 2nd from 4th. Barry Dixon of Davy drops to 3rd and new entrant Michael McMahon gets in at 4th.

Small & Mid Cap Stocks
John Mattimoe of Merrion in 2008 does not quite reach the heights of last year's survey where he won four awards. Mattimoe however is still one of the stars winning Small & Mid Cap Stocks. John Sheehan comes in second ahead of Gerry Hennigan of Goodbody. David Jennings of Davy a new entrant comes third.

Gaming
Liam Igoe of Goodbody wins for the first time taking his second title. Igoe beats last year's winner Gavin Kelleher who takes second spot. David Jennings of Davy

Robert Eason, Goodbody

drops to third place on foot of Igoe's strong performance and new man to the category Neil Glynn comes in fourth place.

Energy & Resources
It has been a tough time for industrials since September as the real impact of the credit crisis moved from Wall St to Main St. Meanwhile, energy stocks have struggled lately in view of declining demand for oil from shrinking economies. Gerry Hennigan of Goodbody takes his second of two awards to add to his technology gong. Sebastian Orsi rises in the ranks in this category from third spot. Job Langbroek of Davy is up to third from fourth.

Pharma & Biotechnology
Goodbody's Ian Hunter surges ahead jumping from fourth to first. Sam Farthing of Merrion places in second. Jack Gorman of Davy last year's winner slips back to third.

Media
This year's title is contested by quite a few new comers. Only one of the top five in this year's survey are amongst the category's top five last year - Gavin Kelleher of Merrion. Gerry Hennigan comes into this category strongly in second as does Stephen Furlong of Davy into third.

Paper & Packaging
A new category last year on foot of Smurfit Kappa's return to the market, is won again by John Mattimoe of Merrion. Goodbody's Robert Eason moves up to second from fourth. John Sheehan of NCB comes third.

Media

	2008	2007	2006
Gavin Kelleher, Merrion	1	1	1
Gerry Hennigan, Goodbody	2	-	-
Stephen Furlong, Davy	3	-	-
Michael McMahon, NCB	4	-	-
Justin Diddams, RBS	5	-	-
Paul Gooden, RBS	6	5	5

Construction & Building Materials

	2008	2007	2006
Robert Eason, Goodbody	1	2	-
John Mattimoe, Merrion	2	1	2
John Sheehan, NCB	3	3	1
Florence O'Donoghue, Davy	4	5	5
Kevin McConnell, Bloxham	5	-	-
Tim Cahill, Davy	6	6	-
Barry Dixon, Davy	7	4	4
John Messenger, RBS	8	8	-
William Jones, RBS	9	7	-

Support Services (DCC, Newcourt, CPL, Veris, and Siteserv)

	2008	2007	2006
Gavin Kelleher, Merrion	1	3	-
John Sheehan, NCB	2	1	-
David Jennings, Davy	3	4	-
John Goode, Goodbody	4	-	-
Dan Cavanagh, Goodbody	5	-	-
John Cantwell, NCB	6	5	-

Gaming

	2008	2007	2006
Liam Igoe, Goodbody	1	4	-
Gavin Kelleher, Merrion	2	1	1
David Jennings, Davy	3	2	2
Neil Glynn, NCB	4	-	-
Ross McEvoy, Bloxham	5	-	-
Nick Thomas, RBS	6	5	-

Energy & Resources

	2008	2007	2006
Gerry Hennigan, Goodbody	1	1	2
Sebastian Orsi, Merrion	2	3	4
Job Langbroek, Davy	3	4	3
Peter Hutton, NCB	4	5	1
Caren Crowley, Davy	5	2	5
Ross McEvoy, Bloxham	6	-	-
David Cline, RBS	7	6	-
Phil Corbett, RBS	8	7	-

Paper & Packaging

	2008	2007	2006
John Mattimoe, Merrion	1	1	-
Robert Eason, Goodbody	2	4	-
John Sheehan, NCB	3	3	-
Barry Dixon, Davy	4	2	-
Ross McEvoy, Bloxham	5	-	-

Mattimoe again top analyst

The winner of the 'Analyst of the Year 2008' once again is John Mattimoe of Merrion. Merrion's winning streak continues with Sebastian Orsi coming second. Orsi is one of the rising stars of the 2008 survey, also moving from sixth to third place in the 'Best Research Economist: Irish Economist' category. Overall, it's been a good year for Goodbodys, who occupy five positions in the top ten. Joe Gill, formerly of Goodbody's and now at Bloxham, has taken sixth place, moving up two places while Davy is also represented in the rankings, with Scott Rankin at number eight, Others from Davys are Emer Lang at 11, Jack Gorman at 12, John O'Reilly in 14th and Tim Cahill at no. 16. NCB is represented by John Sheehan in fifth position; and Paul Meade, who is a new entry at no.15.

John Mattimoe, 'Analyst of the Year', Merrion, also won the 'Small & Mid Cap', 'Airlines' and 'Paper & Packaging' categories.

Analyst of the Year	*2008*	*2007*	*2006*
John Mattimoe, Merrion	1	1	-
Sebastian Orsi, Merrion	2	-	-
Robert Eason, Goodbody	3	4	-
Eamonn Hughes, Goodbody	4	5	5
John Sheehan, NCB	5	3	1
Joe Gill, Bloxham	6	-	-
Gerry Hennigan, Goodbody	7	-	-
Scott Rankin, Davy	8	10	11
Liam Igoe, Goodbody	9	12	6
Ian Hunter, Goodbody	10	-	-
Emer Lang, Davy	11	-	-
Jack Gorman, Davy	12	-	-

Hat-trick for O'Leary

It's a hat-trick for Dermot O'Leary of Goodbody as he is awarded 'Best Research Economist' for the third year running. O'Leary was first awarded the title back in 2006, when he took the title from Robbie Kelleher of Davy. In the four years he has appeared in the survey O'Leary has won three times and came second in his debut year. The win means that for a second time a Goodbody economist has won three times, a feat achieved by former research economist at Goodbody, Colin Hunt.

Rossa White of Davy is moving up in the right direction, climbing one place from third place in 2008 to second place in this year's survey. Third position goes to Sebastian Orsi of Merrion, who has moved up an impressive three positions, from sixth to third, in the past year. Three newcomers to the rankings are Brian Devine of NCB, Robert Lind and Dario Perkins, who take fourth, fifth and sixth position respectively.

Dermot O'Leary, Best Research Economist, Goodbody.

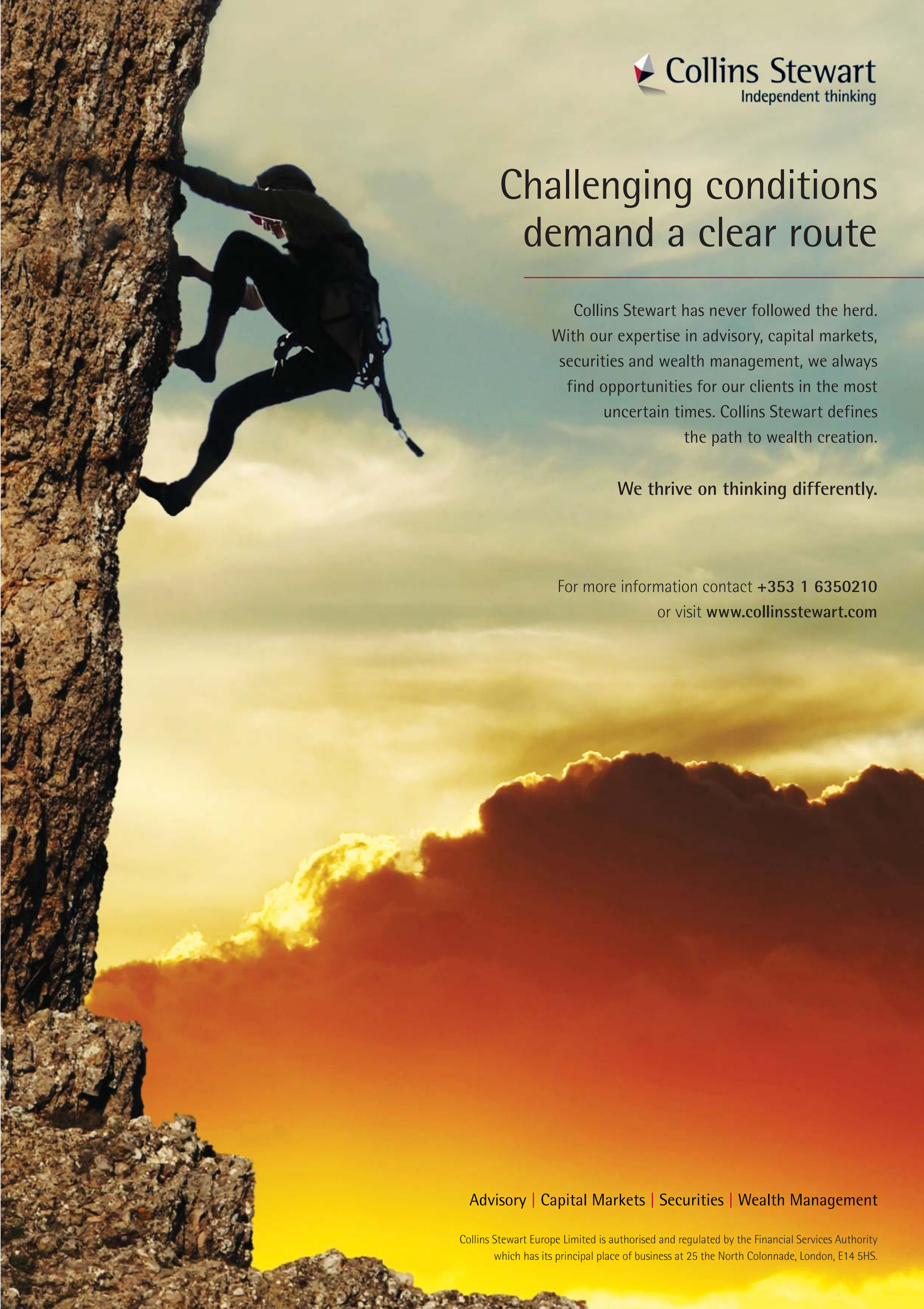
Best Research Economist: Irish Economy	*2008*	*2007*	*2006*
Dermot O'Leary, Goodbody	1	1	1
Rossa White, Davy	2	3	5
Sebastian Orsi, Merrion	3	6	6
Alan McQuaid, Bloxham	4	7	7
Brian Devine, NCB	5	-	-
Robert Lind, RBS	6	-	-
Dario Perkins, RBS	7	-	-

Quality of equity research key, but solvency a new concern

There is no denying the correlation between external market conditions and the arrival of a new category, 'Solvency of Counterparty', entering the table for the first time at number four. Surely a clear sign of turbulent times? Ahead of that however is 'Quality of Equity Research' which is always close to the top of the pile as was the case in 2006, but last year slipping to second behind Day to Day sales service.

Responses indicate that reducing risk through execution is a crucial factor, with 'Execution/Ability to deal in size' moving from third most important criterion in 2007 to second place in 2008. However, 'Capacity for delivering strategic investment advice', was perceived by respondents as being less important, with the category falling from fifth place in 2007 to tenth place in 2008. Strategic investment advice has dropped, reflecting a desire for institutions to get primary equity information for their money, leaving the strategising to investors themselves, who may well feel, in current markets, that if they are going to make mistakes, at least they won't have to pay more for them.

Performance Criteria - Equities	*2008*	*2007*	*2006*
Quality of Equity Research	1	2	1
Execution/Ability to Deal in Size	2	3	2
Day-to-day Sales Service	3	1	3
Solvency of Counterparty	4	-	-
Objectivity of Equity Research	5	4	4
Back Office Service/Settlement	6	7	8
Knowledge of International Markets	7	6	6
Commission Charges	8	-	-
Ability to provide Capital	9	-	-
Capacity for Delivering Strategic Investment Advice	10	5	5
Ancillary Research Services (e.g. website, seminars)	11	8	7
Strength of Quantitative and Technical analysis	12	-	-
Programme Trading Capability	13	-	-
Algorithmic Trading	14	-	-


Collins Stewart
Independent thinking
Challenging conditions demand a clear route
Collins Stewart has never followed the herd. With our expertise in advisory, capital markets, securities and wealth management, we always find opportunities for our clients in the most uncertain times. Collins Stewart defines the path to wealth creation.
We thrive on thinking differently.
For more information contact +353 1 6350210 or visit www.collinsstewart.com
Advisory | Capital Markets | Securities | Wealth Management
Collins Stewart Europe Limited is authorised and regulated by the Financial Services Authority which has its principal place of business at 25 the North Colonnade, London, E14 5HS.

Orsi's research report on Irish banks is number one

Sebastian Orsi of Merrion's strong performance in this year's survey continues, with him winning first place in the 'Research report of the year' category. Orsi's report was entitled *Irish Financials - A new reality*.

In second place is Eamonn Hughes, Dermot O'Leary and Anna Lalor of Goodbody's report entitled *Irish Financials - Home on the range - the credit crisis moves into the 'real economy'*.

Third place was awarded to Scott Rankin and Rossa White of Davy with their report *Irish banks and property: trouble brewing, but the market is pricing in an unlikely outcome.'*

Sebastian Orsi, Merrion

NCB came in fourth place with a report authored by John Cantwell, *'Irish Financials – Dividend cuts would reduce risk to capital'*, whilst Goodbody took fifth place with Ian Hunter's report *'Elan – The Matrix reloaded – Valuing the options post negative news on progress of key drugs.'*

For the third year running Davy's Weekly Book took first place in the 'Best Equity Books (printed or online)' category; Goodbody remained at number two for the third year running and Merrion's *'Online Equity Book'* retained its position at number three.

Goodbody recaptured the number one position for '*Best Morning Research Notes*' which it won in 2006. Merrion took second position in this category with its '*Morning comment/early thoughts*'; whilst Davy fell from first to third position with '*Davy starting points: morning equity briefing'*.

NCB's 'Morning News and Views' climbed up one position; as did Bloxham's *'Equity morning digest'*. Collins Stewart's *'Thoughts for today'* remained at number six; and new entry RBS took the number seven position.

In 2007's 'Best Website' category, Collins Stewart was topped a category. Unfortunately, the winning streak did not continue for this year's survey, with the 'Best Website' first place going to Merrion. For the second year in a row Davy took second place in the category, whilst Goodbody climbed from number five in 2007 to number three in this year's survey.

Research Report of the Year 2008

Irish Financials - A new reality, **Sebastian Orsi**, Merrion	1
Irish Financials - Home on the Range - The Credit Crisis moves into the 'Real Economy', **Eamonn Hughes, Dermot O'Leary, Anna Lalor**, Goodbody	2
Irish banks and property: trouble brewing, but the market is pricing in an unlikely outcome, **Scott Rankin, Rossa White**, Davy	3
Irish Financials - Dividend cuts would reduce risk to capital, **John Cantwell**, NCB	4
Elan - The Matrix Reloaded - Valuing the options post negative news on progress of key drugs, **Ian Hunter**, Goodbody	5
Davy on food and beverage: the 1973-1980 period may provide some insights regarding the current food commodity surge, **Barry Gallagher, John O'Reilly, Ivan Skelly**, Davy	6
UK housebuilding: hitting a brick wall, **Robert Gardiner, Florence O'Donoghue, Barry Dixon, Tim Cahill,** Davy	7
Ten Options for the Irish Economy, **Alan McQuaid,** Bloxham	8
Airlines - Crisis point: where will the industry go from here?, **Stephen Furlong, Ivan Skelly,** Davy	9
Offshore Ireland review: new price regime and search for new supply change the outlook for offshore Ireland, **Job Langbroek, Caren Crowley, James McCullough**, Davy	10
Global cement: demand is slowing as capacity spikes; rising energy to cause margin erosion in 2009, **Tim Cahill, Barry Dixon, Robert Gardiner, Florence O'Donoghue,** Davy	11

Best Morning Research Notes

	2008	2007	2006
Goodbody Irish Equity Morning Meeting Wrap	1	2	1
Merrion Morning Comment / Early Thoughts	2	3	2
Davy Starting Points: Morning Equity Briefing	3	1	3
NCB Morning News and Views	4	5	3
Bloxham Equity Morning Digest	5	7	7
Collins Stewart: Thoughts for Today	6	6	6
RBS	7	-	-

Best Equity Books (printed or online)

	2008	2007	2006
Davy Weekly Book	1	1	1
Goodbody Rolling Agenda	2	2	2
Merrion Online Equity Book	3	3	4
NCB Investment Strategy and Stock Analysis	4	4	3
ESN/NCB European Small & Mid Cap Book	5	6	5
ESN/NCB European Blue Chip Stock Guide	6	5	6

Best Website

	2008	2007	2006
Merrion	1	3	4
Davy	2	2	1
Goodbody	3	5	2
Collins Stewart	4	1	5
NCB	5	4	3
Bloxham	6	-	-
Citi Smith Barney	7	-	-
RBS	8	-	-

Bloxham clean sweep in institutional bonds

In what was a close run thing in last year's survey, Bloxham have won as the overall winner as the leading domestic player in the Irish bond market. The manner of Bloxham's victory, a clean sweep of the eleven categories in bonds, is a turnaround on last year's result where Davy won six categories compared to five for Bloxham.

Pramit Ghose, managing partner at Bloxham's, gives some background to this performance by Bloxham showing the focus Bloxham has on its bonds business on page 21. He says, 'With bond issuance across the western world set to expand sharply in the credit crisis, bond broking is undergoing something of a renaissance.' In light of this potential increase in the level bond trading, it may be an area other Irish stockbroking houses may see opportunities in going forward. In the individual categories Bloxham have also performed well.

Alan McQuaid of Bloxham's wins 'Best Research Economist – Bond Markets' ahead of Donal O'Mahony at Davy's who won the award in 2006. In the 'Best Bond Sales Person' category John Power also of Bloxham's wins leaping up to the top of the table from fifth place. The firm also take second position where last year's winner Tom Reilly comes second. Davy's have five in the top ten showing there strength in the bonds sector. The highest rated is Barry Nangle who takes third spot.

The title for the best non-Irish bond winners is tight. Both Barclays and RBS, formerly ABN AMRO, tied in first place with three titles each out of the nine categories. Merril Lynch are close behind the front runners winning two categories and lastly Deutsche Bank win one award. Priority amongst voters has remained the same at the top of the criteria table.

Last year 'Execution & Ability to Deal in Size' was and remains the leader as the most important factor and day to day sales also remains in second place. 'Capacity for Delivering Strategic Investment Advice' has grown in importance from fifth to third while 'Quality of Bond Research' has fallen to fifth place.

Performance Criteria

	2008	*2007*	*2006*
Execution/Ability to Deal in Size	1	1	6
Day-to-day Sales Service	2	2	2
Capacity for Delivering Strategic	3	5	3
Investment Advice Back Office Service/Settlement	4	6	4
Quality of Bond Research	5	3	1
Ancillary Research Services	6	4	5

Best Overall Bond/Fixed Income Research (Irish Firms)

	2008	*2007*	*2006*
Bloxham	1	2	2
Davy	2	1	1

Best Overall Bond/Fixed Income Research (Non-Irish)

	2008	*2007*	*2006*
Barclays Capital	1	5	5
RBS*	2	2	8
Dresdner Kleinworth Wasserstein	3	6	10
Merrill Lynch International	4	-	-
Deutsche Bank	5	3	1
UBS	6	4	10
Morgan Stanley	7	8	3
Goldman Sachs	8	1	4
Credit Agricole SA	9	-	-
Credit Suisse First Boston	10	7	6
Smith Barney Citicorp	11	-	-
Commerzbank	12	-	-

Best for Ability to Deal in Size

	2008	*2007*	*2006*
Bloxham	1	2	-
Davy	2	1	-

Best for Ability to Deal in Size (Non-Irish)

	2008	*2007*	*2006*
RBS*	1	4	-
Barclays Capital	2	-	-
UBS	3	3	-
Deutsche Bank	4	-	-
Dresdner Kleinworth Wasserstein	5	5	-
Merrill Lynch International	6	2	-
Smith Barney Citicorp	7	1	-
Credit Suisse First Boston	8	-	-
Goldman Sachs	9	-	-
Credit Agricole SA	10	4	-
Morgan Stanley	11	6	-
Commerzbank	12	-	-

Execution Service

	2008	*2007*	*2006*
Bloxham	1	2	-
Davy	2	1	-

Execution Service (Non-Irish)

	2008	*2007*	*2006*
RBS*	1	1	-
Merrill Lynch International	2	7	-
Barclays Capital	3	-	-
Deutsche Bank	4	-	-
UBS	5	3	-
Dresdner Kleinworth Wasserstein	6	-	-
Credit Suisse First Boston	7	5	-
Morgan Stanley	8	6	-
Credit Agricole SA	9	4	-
Smith Barney Citicorp	10	8	-
Goldman Sachs	11	2	-
Commerzbank	12	-	-

Best Sales Service - Bonds (Irish/International/Corporate)

	2008	*2007*	*2006*
Bloxham	1	1	2
Davy	2	2	1

Best Sales Service - Bonds (Non-Irish) (Irish /International /Corporate)

	2008	2007	2006
Merrill Lynch International	1	6	4
Deutsche Bank	2	5	1
RBS*	3	8	6
Barclays Capital	4	4	5
UBS	5	7	2
Dresdner Kleinworth Wasserstein	6	-	-
Smith Barney Citicorp	7	1	9
Morgan Stanley	8	3	-
Credit Agricole SA	9	-	-
Goldman Sachs	10	2	6
Commerzbank	11	9	-
Credit Suisse First Boston	12	-	-

Best Back Office/Settlement

	2008	2007	2006
Bloxham	1	2	1
Davy	2	1	2

Best Back Office/Settlement (Non-Irish)

	2008	2007	2006
Barclays Capital	1	6	-
RBS*	2	10	5
Merrill Lynch International	3	5	4
Deutsche Bank	4	-	-
UBS	5	4	3
Dresdner Kleinworth Wasserstein	6	2	6
Credit Suisse First Boston	7	3	9
Smith Barney Citicorp	8	1	1
Morgan Stanley	9	9	1
Goldman Sachs	10	-	-
Credit Agricole SA	11	8	8
Commerzbank	12	7	-

Best Research Products

	2008	2007	2006
Bloxham	1	2	2
Davy	2	1	1

Best Research Products (Non-Irish)

	2008	2007	2006
Barclays Capital	1	-	-
Deutsche Bank	2	2	5
Merrill Lynch International	3	3	3
UBS	4	4	9
RBS*	5	-	-
Morgan Stanley	6	7	-
Dresdner Kleinworth Wasserstein	7	9	6
Goldman Sachs	8	6	-
Commerzbank	9	-	-
Credit Agricole SA	10	8	-

Best Overall Corporate Bond Service

	2008	2007	2006
Bloxham	1	1	-
Davy	2	2	-

Best Overall Corporate Bond Service (Non-Irish)

	2008	2007	2006
Merrill Lynch International	1	3	-
RBS*	2	-	-
UBS	3	6	-
Barclays Capital	4	2	-
Deutsche Bank	5	1	-
Credit Agricole SA	6	-	-
Goldman Sachs	7	5	-
Morgan Stanley	8	4	-
Dresdner Kleinworth Wasserstein	9	7	-
Credit Suisse First Boston	10	10	-

Best Overall Asset Backed Securities (ABS) Service

	2008	2007	2006
Bloxham	1	2	2
Davy	2	1	1

Best Overall Asset Backed Securities (ABS) Service (Non-Irish)

	2008	2007	2006
RBS*	1	5	3
Merrill Lynch International	2	2	2
Smith Barney Citicorp	3	1	1
UBS	4	11	6
Deutsche Bank	5	4	8
Dresdner Kleinworth Wasserstein	6	7	-
Credit Suisse First Boston	7	-	-
Credit Agricole SA	8	9	9
Barclays Capital	9	10	-
Goldman Sachs	10	8	7

Best Overall High Yield Service

	2008	2007	2006
Bloxham	1	1	1
Davy	2	2	2

Best Overall High Yield Service (Non-Irish)

	2008	2007	2006
Deutsche Bank	1	4	8
Merrill Lynch International	2	2	2
Dresdner Kleinworth Wasserstein	3	7	-
Barclays Capital	4	10	-
RBS*	5	5	3
Commerzbank	6	3	-
UBS	7	11	6
Smith Barney Citicorp	8	1	1
Goldman Sachs	9	8	7
Morgan Stanley	10	6	4

Best Bond Sales Person

	2008	2007	2006
John Power, Bloxham	1	5	-
Tom Reilly, Bloxham	2	1	-
Barry Nangle, Davy	3	7	-
Peter Costigan, Bloxham	4	-	-
Barry Murphy, Davy	5	9	-
Anthony Childs, Davy	6	4	-
Colin Hughes, Bloxham	7	-	-
Pat Lyster, Davy	8	2	-
Aidan Williams, RBS	9	10	-
Liz Wilson, RBS	10	8	-

Best Research Economist - Bond Markets

	2008	2007	2006
Alan McQuaid, Bloxham	1	1	2
Donal O'Mahony, Davy	2	2	1

** formerly ABN AMRO, results prior to this year refer to ABN AMRO.*

Collins Stewart moves to number one for best UK research

Voted number one for the 2008 'Best overall equity research UK' is Collins Stewart, which has climbed up one place from second in 2007's results.

In second place is Goldman Sachs, and in third place is Morgan Stanley. This year's results in this category are not so good for Smith Barney Citigroup, which was voted number one last year but only reached number four in this year's results.

Merrill Lynch took fifth place, whilst sixth, seventh, eighth and ninth place were all awarded to previously unranked entrants in this category: Landsbanki/Kepler (6); Deutsche Bank (7); Cazenove (8) and RBS (ABN AMRO) (9).

UBS Warburg fell a significant 6 places in the ranking, going from number four in the 2007 survey to tenth place in 2008. Credit Suisse First Boston was ranked at number 11 and NCB London at number 12.

In the 'Best overall equity research Europe (excluding UK) category, Merrill Lynch climbed an impressive six places to regain the top spot which they reached in 2006, but conceded to Collins Stewart in the 2007 survey.

Goldman Sachs continues its success in reaching the upper echelons of three categories in the International Firms Ratings section by being voted in at second place; and Collins Stewart goes down from first position to third.

Smith Barney Citigroup came in at number four, down from second place in 2007; whilst again the previously unranked entries, Landsbanki/Kepler and Credit Suisse First Boston took fifth and sixth place respectively.

'Best overall equity research USA' was awarded to Goldman Sachs, up four places from 2007's survey; Smith Barney retained its position at number two and, ironically given the subsequent circumstances of the institution, Lehman Bros was awarded third place.

For 'Best Overall Equity Research Japan' Merrill Lynch was awarded first position, knocking Smith Barney Citigroup off the number one spot. Collins Stewart took third position and Daiwa retained its position at number four.

Morgan Stanley was voted number one for 'Best overall Equity Research South East Asia', followed by CLSA at number two and Smith Barney Citigroup at number three.

Best Overall Equity Research UK

	2008	*2007*	*2006*
Collins Stewart	1	2	2
Goldman Sachs	2	-	-
Morgan Stanley	3	5	3
Smith Barney Citigroup	4	1	4
Merrill Lynch	5	3	1
Landsbanki/Kepler	6	-	-
Deutsche Bank	7	-	-
Cazenove	8	-	-
RBS (ABN AMRO)	9	-	-
UBS Warburg	10	4	4

Best Overall Equity Research EUROPE

(excluding UK)	*2008*	*2007*	*2006*
Merrill Lynch	1	7	1
Goldman Sachs	2	-	-
Collins Stewart	3	1	2
Smith Barney Citigroup	4	2	5
Landsbanki/Kepler	5	-	-
Credit Suisse First Boston (CSFB)	6	-	-
UBS Warburg	7	6	4
JP Morgan	8	-	-
NCB/ESN	9	5	-
Morgan Stanley	10	4	-

Best Overall Equity Research USA

	2008	*2007*	*2006*
Goldman Sachs	1	5	-
Smith Barney Citigroup	2	2	2
Lehman Bros	3	-	-
Sanford Bernstein	4	6	5
Morgan Stanley	5	1	-
Merrill Lynch	6	4	1
JP Morgan	7	-	-
Credit Suisse First Boston	8	-	-
UBS Warburg	9	3	3
Prudential	10	-	-

Best Overall Equity Research JAPAN

	2008	*2007*	*2006*
Merrill Lynch	1	5	3
Smith Barney Citigroup	2	1	2
Collins Stewart	3	2	3
Daiwa	4	4	5
Morgan Stanley	5	3	1
HSBC	6	-	-
ING	7	-	-

Best Overall Equity Research SOUTH EAST ASIA

	2008	*2007*	*2006*
Morgan Stanley	1	4	2
CLSA	2	1	3
Smith Barney Citigroup	3	2	1
Deutsche Bank	4	3	5
HSBC	5	6	4
RBS (ABN AMRO)	6	5	-
ING	7	-	-

Fitzpatrick top trader again

Laura Fitzpatrick of Merrion has retained the title of 'Best Equity Sales Trader'. Fitzpatrick keeps her title after her first victory last year when she rose from seventh in the 2006 survey to the top slot. One of 31 nominees in the category, Fitzpatrick fended off stiff competition from Fergal O'Dwyer and Glenn Dalton both of Goodbody. O'Dwyer rises from sixth to second and Dalton makes an impressive first appearance in third position. Hannah Meyer of Merrion moved up one place to fourth. NCB's

Laura Fitzpatrick, Merrion

Alan Duff falls back three places to fifth from second. The biggest climber in the ranks in this year's survey is Catriona Nicholson who climbs from 15 to 6.

Best Equity Sales Trader	2008	2007	2006
Laura Fitzpatrick, Merrion	1	1	7
Fergal O'Dwyer, Goodbody	2	6	-
Glenn Dalton, Goodbody	3	-	-
Hannah Meyer, Merrion	4	5	11
Alan Duff, NCB	5	2	1
Catriona Nicholson, Goodbody	6	15	-
Garret Ward, Goodbody	7	11	3
Paul Chew, NCB	8	3	2
Justin O'Flaherty, Goodbody	9	7	6
Stephen O'Donohue, Goodbody	10	-	-
Cathal O'Leary, NCB	11	10	4
Aidan Mc Sweeney, Davy	12	4	9

Carton wins 2008 equity sales title

Rory Carton of Goodbody has shot to the top of the table to become best 'Equity Sales Person' in 2008. Carton was not in the running last year beating off some of the more established names among the 40 individuals nominated in the category. He is joined by another new entry, Goodbody colleague David Donnelly in second place. Peter Frawley of Merrion has come in third spot, up two places on his fifth place finish last year. Enrique Curran also places well in fourth. Goodbody scored

Rory Carton, Goodbody

well, with 5 placed in the top 12 out of 11 nominations. The top rating for Davy in the category was 20th, from 14 nominations. Four of Merrion's 5 nominees showed, with 1 of NCB's 10.

Best Equity Sales Person	2008	2007	2006
Rory Carton, Goodbody	1	-	-
David Donnelly, Goodbody	2	-	-
Peter Frawley, Merrion	3	5	3
Enrique Curran, Merrion	4	3	8
Lesley Williams, Goodbody	5	13	-
Murray McCarter, NCB	6	8	-
Paddy Dempsey, Bloxham	7	-	-
Liam Boggan, Merrion	8	2	-
Johnny Lynch, Merrion	9	11	-
Tom Shaw, Goodbody	10	12	13
Monika Orlowska, Goodbody	11	-	-
Ray Deasy, Bloxham	12	-	-

The sample frame and voting in the 2008 Survey

PARTICIPATION in the 2008 Survey was unprecedented in its 22 year history, with 321 different individual institutional investors voting. They responded to 60 questions, concerning products, individuals, and firms, which contained 514 different nominations of individuals, products and firms in the overall survey.

A total of 845 institutions were polled, with 2,781 individuals contacted. The survey was carried out online in October-November 2008. Each voter was individually nominated by the sponsoring stockbroking firms, and thus the universe of institutional investors closely mirrored the global investor universe in Irish quoted securities.

One third of the voting sample described themselves as "hedge fund managers" (e.g. mandated to engage in short selling or covering), and two thirds were from mutual fund managers, with the remainder in an assortment of institutions, (see breakdown on page 4).

The sample frame was derived by amalgamating lists of investors nominated by stockbroking firms who were invited to nominate clients for the survey. The nomination of an individual from an institution by more than one stockbroking firm automatically qualified that institution and its nominated individuals for inclusion in the survey.

In the case of uniquely nominated institutions, (i.e. institutions represented by just one individual nomination from one stockbroking firm), inclusion in the survey depended on their participation in a 'draw' whereby each stockbroking firm was allocated the same number of unique nominees. These were chosen randomly. Votes were counted on an institution-by-institution basis, with multiple votes by individuals from one institution aggregated together. There was a limited form of weighting within the survey for member institutions in the Irish Association of Investment Managers, whereby firms in that Association with a greater NAV than those with less had their votes weighted by up to 6 times that of the smaller members. All other votes were treated on an equal basis.

This limited weighting was in accordance with the below proportions:

Irish funds under management:
- €30 billion plus: x6
- €15-30 billion: x4
- €10-15 billion: x 2
- €10 billion and less: x1

All singing model a thing of the past

NCB Stockbrokers Chief Executive Conor O'Kelly makes a cold and realistic assessment of the Irish stockbroking industry. It's going to be a long way back, he says, 'but I've no doubt we will eventually get there and the first steps may indeed have already been taken'.

The party's over - the punchbowl has been taken away and the only question now is how bad will the hangover be?

The deleveraging by institutions and individuals has been swifter than anything seen before in markets and the losses have been of record proportions and gut wrenching.

The Irish market has suffered more than most where the lack of sectoral breadth and diversity has been cruelly exposed. The concentrated exposure to financials and construction, in particular, has been compounded by the poor technical position of the market. Leveraged positions of private individuals through CFDs has led to forced selling and, ultimately, capitulation. More fundamentally, the over weighting of domestic institutions in Irish stocks has come back to haunt them and has meant that when the market needed backing from its domestic investors most, they were, in fact, doing the opposite and selling down their holdings making a bad situation worse.

The brokerage business is under enormous pressure internationally and domestically. A world where brands such as Lehman Brothers, ABN and Kleinwort disappear within a couple of months is difficult to comprehend.

Many private clients have suffered huge wealth destruction and, not surprisingly, have become very risk averse. Individual balance sheets must be repaired and this will take a number of years. Institutions have seen assets under management collapse in value and have witnessed record redemptions. Equities are even being questioned as a viable long-term asset class.

Key questions still remain unanswered and any change in the landscape around Irish financials will have a dramatic effect on the market and the domestic brokers.

Investment managers will continue to reassess how they approach counterparty risk, Direct Market Access (DMA), execution and unbundling. It's likely that counterparty lists will shrink with execution confined to the bigger, supposedly safer, names with research being paid for separately.

Agency brokers could thrive but asset managers may ultimately put more investment and resources into direct market access which is the ultimate reduction of counterparty risk. None of this is good news for brokers and with confidence in the street's research product at an all time low those unbundled cheques could be small.

'For some the high cost of compliance and an increased capital requirement may become too much to bear – for others, if the low volumes of recent months continue indefinitely, consolidation may be the only option.'

But brokers, as they have always done, will adjust their own business models to reflect the new realities. For Irish stockbrokers the all singing all dancing integrated broking model is a thing of the past. Research on micro cap and small caps will disappear and many companies in the market will feel even more unloved than they do currently. With the Irish market 70 per cent off its highs and all but abandoned by foreign investors, for the time being, the commission business in Irish equities has contracted significantly.

Against this background, firms will need an international product to keep their institutional relationships alive while waiting for some of the Irish stories to come back into favour.

For NCB our membership of the European Securities Network has proved critical and this firm now generates over 25 per cent of its revenue from international stocks. The access to European local research coverage and a fully integrated execution this platform has been increasingly well received by clients as hopefully is evident from this client survey.

The competitive landscape has changed dramatically internationally and may yet change locally. It's entirely possible that by this time next year there will have been significant changes in the stockbroking sector that historically would not have been contemplated.

Regulation has continued to increase in the sector and that has potential to escalate. For some the high cost of compliance and an increased capital requirement may become too much to bear – for others, if the low volumes of recent months continue indefinitely, consolidation may be the only option.

But while there is no shortage of things to get bearish about experienced market professionals intuitively know that a contrary view is likely to be rewarded although this time the pay back period is likely to be long. It takes stomach (and cash) to seek out value among the rubble and despair but when legends such as Warren Buffet, Bill Gross and Anthony Bolton start putting their money down it is worth paying attention.

Historically it's been wise to follow the Wall Street adage 'never fight the Fed' and now that authorities around the world are displaying unprecedented determination and co-ordination to fix the financial system following that adage could be more apt than ever.

Ireland's low debt / GDP, healthy dependency ratio, young population combined with the safety valve of migrants taking a one way ticket home means the 80s have not returned nor are they likely to. Ireland's savings rate is high and there is a difference between consumers who 'can't buy' vs 'won't buy'. It's going to be a long way back for the Irish market but I've no doubt we will eventually get there and the first steps may indeed have already been taken.

I'm pretty sure President Elect Obama was not referring to the Irish brokerage community when he said 'our journey will be long and the road will be steep' but he was right on the money. We will need to be right on the money about lots of things if we are to get through this period intact.

Conor O'Kelly is chief executive of NCB.

Irish equities - early to fall, early to rise?

At a time when all international asset classes are under the cosh, the value of a deep understanding of the Irish economy and its stocks has never been greater, says Roy Barrett, head of this year's top rated firm, Goodbodys.

The future of Irish stockbroking depends, more than anything, else on how the current bear market in Irish equities plays out. There are three differences between the current bear market in Irish equities and all others –
- root causes,
- ferocity
- timing.

Each of these has implications for the stockbroking industry and the challenge for us is how we structure our firms to meet the demands of a dramatically changed environment, and how we are regulated.

The root causes of previous bear markets in Irish equities have tended to be internationally driven. The Irish equity market started its bull run in the 1980s years before the structural changes in the economy were achieved. It was driven by global equity market trends, international growth by Irish companies and demand from Irish investors who were restricted by exchange controls. It is common cause that the current global crisis grew out of US subprime mortgages, or more generically, excess liquidity provision to certain asset classes. While some felt that the relative absence of exotic financial products from the balance sheets of Irish banks would provide some insulation, the markets' early view that problems in Ireland would arise from excess domestic lending has been proved right by the provisions now being applied. To achieve a turnaround in Ireland, we therefore require both domestic action to release finance back into the system, while at the same time knowing that, as a small open economy, we also need global recovery to provide sustainable recovery.

'To achieve a turnaround in Ireland, we therefore require both domestic action to release finance back into the system, while at the same time knowing that, as a small open economy, we also need global recovery to provide sustainable recovery.'

Roy Barrett,
Goodbody Stockbrokers

Learning lessons the hard way

From an equity market perspective, this demands that international investors believe that the banks are adequately capitalised, and that the problems of the property sector are being fully acknowledged, and it may well be that such moves can spark the first leg of a market recovery. On the other hand, for the many companies with a substantial international exposure, growth will inevitably be delayed until the global gloom lifts. And for stockbroking companies such as our own, the implications for our institutional and corporate service offering are clear – an even deeper understanding of the dynamics of the Irish economy is required, and a knowledge of the unique drivers of each of the Irish companies – companies of differing quality and with diverse prospects have been tarred with the same broad brush of ISEQ membership. And parts of the private client base have been hit hard – particularly those who were actively involved in trading Irish stocks, and long-term holders of the Irish banks. The lessons of diversification have been learnt the hard way, and in response we continue to develop our broadly-based, risk-averse wealth management offering, focusing on a geographic spread of assets.

The ferocity of the ISEQ's fall is without precedent, and has been greater than that of its peers. Buoyed by the strength of the Irish economy in recent years, and with demand swollen by Irish retail investors, the market has seen heavy international selling, with domestic buyers both limited in scale and burned by prior bravery. This created an environment supportive of the controversial practice of short selling, which, as in other markets, was restricted after the "St Patrick's Day Massacre". There was undoubtedly a global issue in relation to the fact that short sellers could target the stock of financial institutions one by one, creating uncertainty and arguably accelerating the demise of some. It is notable, however, that despite the restrictions (and, indeed, despite the subsequent unprecedented Government guarantee) shares in Irish banks saw dramatic further percentage falls since the initial exuberance which followed the introduction of the guarantee. The extent of the ISEQ's fall has been driven by the collapse in bank stocks, and compounded by the cyclical nature of market leaders such as CRH, Ryanair and Smurfit. The very contraction of the market has forced further sellers who have mandates only to hold large companies.

The savage volatility in markets has caused investment banks everywhere to greatly reduce their market-making operations, and Ireland has been no exception. At Goodbody, we have retained our commitment to making a market in Irish equities, and regard it as a core offering to our institutional and corporate clients. In response to market conditions, spreads are wider, and transactions smaller, but our objective is to ensure that even as international houses exit the market, our presence strengthens, and this is proving to be the case. For the private client, yet again the extent of the Irish market's decline makes ever clearer the need for the diversified wealth management offering which we have been building.

Timing is everything

Considering finally the issue of timing, the Irish economy, with the equity market in its wake, has traditionally responded late to international trends. Recovery from the 1980s recession came well after the rest of the western world had made the changes necessary to get its fiscal position in order. The currency crisis of the early 1990s (well, it seemed like a crisis at the time) was

Ireland will remain a key market in the search for global equity value

Barry Dixon, the head of Davy Research, whose firm again wins the award for Best Equity Book, provides an overview of the key Irish equities and assesses their world class characteristics against their international peers.

The ISEQ index of Irish shares had declined by 67 per cent year-to date at the time of writing, making it one of the worst performing markets globally for a second year in a row. From the peak in February 2007, the index is now down over 75 per cent. Irish and international investors alike might be tempted to ask: why should we bother with Ireland at all?

The answer is fairly straightforward: Ireland is relevant for its world-class companies across a range of sectors.

There was a time when the main role of an Irish stockbroker was to analyse Irish stocks for inclusion in Irish portfolios. International peers were given a passing glance just to make sure that the Irish stock valuation did not look too out-of-kilter.

These days, however, providing a peer valuation table to clients is not enough, even for those investors managing an Irish-only fund. Brokers must be able to provide detailed analysis on international peers, to a standard equivalent to the analysis provided on the Irish stocks. The broker must also be able to provide sales, trading and corporate broking services equivalent to those offered on Irish names.

Barry Dixon, Davy Stockbrokers

The ISEQ - a market of stocks rather than a stock market

One of the main reasons for the poor performance of the ISEQ year-to-date is the relatively high proportion of the market accounted for by financials. At the start of the year, the financial sector accounted for almost 43 per cent of the market's total capitalisation. At the time of writing, the Irish financials index had declined by 88 per cent year-to-date, contributing over half of the overall market decline. The financial sector globally was one of the worst performing areas for all of the reasons with which we have become painfully familiar. Irish financials underperformed international peers, but not massively so given their relatively high exposure to property-related assets.

Irish food stocks significantly outperformed the market, but performed broadly in line with international peers. The same is true for our construction names, apart from CRH.

The bottom line is that — with a few notable exceptions — the performance of Irish stocks is more highly correlated with the performance of international peers and sectors than with the Irish market as a whole. The performance of the Irish market is simply an aggregation of these sectors' performances.

World-class sector leaders

Sector performance has become much more relevant to investors than country performance. Investors are looking for stocks within sectors that are world-class and represent outstanding value.

One of the main reasons why Ireland should still be relevant to investors is the number of world-class companies, across a range of sectors, that are quoted on the Irish exchange. The following are a few examples:

- **Construction**:

CRH is now the second-largest building materials company in the world by market capitalisation (after Saint Gobain). It has by far the best balance sheet in the industry and is the most exposed to growth in the increasingly attractive US infrastructure market. This stock is certainly on every construction

---

caused by sterling's problems. The Irish equity market, however, having been an outperformer for much of the early part of this decade, began its descent before global markets turned bearish in a serious way. We have seen in the Government's necessary early moves to guarantee liabilities of the Irish banks, for example, that we are early victims of this downwave, and we do not have the luxury of copying other countries' solutions. Appropriate responses as we move forward will be the key to ensuring that Ireland is one of the first markets to recover, rather than resuming its traditional role as a laggard.

As regards the stockbroking sector, the need is to reshape our business rapidly to reflect the new world. Our corporate finance business is working actively with businesses who are addressing the requirements and opportunities of change, and we expect that some transformative transactions will take place in 2009. We are fortunate in that we streamlined our business earlier in the decade, outsourcing our administration and IT functions. Current trends demand that we focus on our core businesses of wealth management. Having spent many years steadily building up the core advisory business, while supporting actively trading clients with a specialised service, we are structurally well positioned to deliver the change of emphasis the market requires. The challenge for our institutional services is to continue to commit the necessary resources to ensure that there is comprehensive coverage of the Irish equity market available at a time when others, particularly outside Ireland, have cut their commitment. Ironically, therefore, at a time when all international asset classes are under the cosh, the value of a deep understanding of the Irish economy and its stocks will never be greater, and we are determined to realise that value for our clients in coming years.

Roy Barrett is management director of Goodbody Stockbrokers.

portfolio manager's radar globally.

Despite the market slowdown, energy conservation, carbon emissions and insulation are likely to remain key themes over the next ten years. No company has emerged as a global player. Kingspan has very advanced technology in this area and could emerge as a global leader over time.

'The bottom line is that - with a few notable exceptions - the performance of Irish stocks is more highly correlated with the performance of international peers and sectors than with the Irish market as a whole. The performance of the Irish market is simply an aggregation of these sectors' performances.'

• **Airlines**
Ryanair is the largest and most successful low-cost airline in the world. It is generating margins and returns that investors did not think possible in what has historically been a difficult industry. It continues to outperform global low-cost and network peers.

• **Foods**
Glanbia is the largest manufacturer of cheese in the US. Whey is a by-product of cheese manufacture and has allowed the company to develop a strong position in whey-related proteins. This could be an area of big interest in the next ten years.

Kerry Group is one of the world's leading food ingredients companies. This business is based largely on proprietary technology across a range of products, systems and applications developed over the last two decades. The group serves both the pharmaceutical and food manufacturing sectors.

ARYZTA, formerly IAWS, is a global player in the specialty bakery market. It has operations in the US, Europe and Asia. The company has developed proprietary baking and par-baking techniques that allow convenience outlets to prepare and deliver high-quality bakery products.

Origin Enterprises has been in the vanguard in terms of developing new methods of precision farming. Despite the current slowdown, the global population continues to grow rapidly and will have to be fed. Current production levels will prove insufficient. Origin plays to this theme.

• **Paper and packaging**
Smurfit Kappa Group is Europe's leading manufacturer of corrugated boxes with over 24 per cent market share. It also has significant corrugated and packaging operations in Latin America.

• **Gaming**
Paddy Power is the leading bookmaker in Ireland and is developing a significant presence in the fast-growing online market. It has also established a presence in the highly competitive UK market through its innovative branding and attractive customer proposition.

• **Resources**
Dragon Oil is an independent exploration and production company that is focused on redeveloping two fields in the Turkmenistan sector of the Caspian Sea. To date, this area has been largely underdeveloped and it could prove to be hugely oil-rich.

And there is a range of other interesting and exciting players across the sectors represented on the Irish market. In order to analyse these companies and provide an accurate context for their operations, we need a detailed knowledge of their sectors internationally.

Competence in the international arena is essential

Traditionally, the role of the Irish broker was to argue that companies such as those listed above - along with others - represented good value, based on the quality of their businesses, and their attractive valuations relative to historical levels, the market as a whole and international peers. This type of analysis is no longer sufficient in our view.

Analysts need to know and understand international peers as well as they do the Irish stocks in order to be able to position the latter in their sectors. This means meeting the management of international peers, visiting their businesses and divisions, financial modelling, debt analysis etc. In effect, analysts should be able to formally initiate coverage on any of these names. And the quality of that coverage should be equal to, or better than, what is provided by the large international houses.

This is a new direction for Irish brokers, providing challenges as well as opportunities. It means having the right resources across our business. It requires a more international focus but without any lessening of our attention to the Irish names. It means extending a brand that is synonymous with quality research and sales to incorporate international names. And all this in an environment of declining markets!

'This is a new direction for Irish brokers, providing challenges as well as opportunities. It means having the right resources across our business. It requires a more international focus but without any lessening of our attention to the Irish names. It means extending a brand that is synonymous with quality research and sales to incorporate international names. And all this in an environment of declining markets!'

At Davy, we have embraced this opportunity for a number of reasons, not least of which is the fact that it allows us to better position Irish corporates in an international sector context.

We now formally cover a range of international names across a number of sectors including construction, airlines and gaming. And we plan to expand our coverage in a number of other sectors over the next year.

Our team of research analysts and sales executives are now as familiar talking about Lafarge and Holcim as they are about CRH and Kingspan, British Airways and easyjet as Ryanair, or Ladbrokes and William Hill as Paddy Power. We regularly publish sector and company-specific reports covering international as well as domestic names.

However, it is important to stress that none of this would be possible if we did not have world-class quoted Irish companies across a range of sectors. As I noted at the outset, this is one of the key reasons why Irish and international investors will continue to focus on Ireland.

Barry Dixon is head of Davy Research.

Leveraging the opportunity created by the downturn

Irish corporates have the ability to build their businesses in the current maelstrom and Bloxham's equity research team is using the withdrawal of research coverage by global investment banks of Ireland as an opportunity says Pramit Ghose managing partner of Bloxham Stockbrokers, one of the oldest investment firms in the UK or Ireland. One of just two bond brokers in Ireland, Bloxhams wins this year's FINANCE Survey in the resurgent bond sector.

Global financial markets are highly volatile at present. Traditional investment patterns are breaking down and confidence among investors and corporates is weakening. These issues are global phenomena that are bearing down directly on Ireland, and its small open economy. Amid that turmoil, Irish companies and investors need to navigate with caution.

Bloxham Stockbrokers is one of the oldest investment firms in Ireland or the UK. From its roots as a retail stockbroker, the firm has broadened its reach into bonds, equities, corporate finance, asset management and wealth management. In each of these areas, we perceive significant opportunities to expand our business amid structural change in the Irish economy and its financial markets.

The Irish equity market has endured sustained weakness over the last two years. From its high in January 2007, the ISEQ has declined by 76 per cent, led by financial and construction stocks. This trend replicates what has unfolded on global markets. A mixture of stressed credit markets and over inflated property values has created a sharp economic slowdown. Volatile commodity markets have compounded risk and exacerbated currency swings across global markets. These changes have created enormous challenges for Irish companies, and ones that will test their management skills and financial strength to the full.

Bloxham believes Irish based corporates have the ability to build their businesses in the current maelstrom. A combination of strong balance sheets, diversified earnings and experienced managers will help these companies survive and expand. The industrial sector, in particular, contains companies that are already leveraging the opportunity created by the economic slowdown. Ryanair is using its industry lowest costs to grow market shares across Europe by attracting price sensitive customers. Kerry Group and CRH, for example, have balance sheets and worldwide management teams capable of acquiring depressed assets and organically expanding amid the current environment. These type of companies, we believe, warrant the support of Irish stockbrokers.

'Alongside our institutional equity research, sales and trading capabilities, we are also developing our award winning bond business. With bond issuance across the western world set to expand sharply in the credit crisis, bond broking is undergoing something of a renaissance.'

Bloxham's equity research team is using the withdrawal of research coverage by global investment banks of Ireland as an opportunity. We are now producing research on Irish companies that is distributed to investors at home and abroad, while we undertake comprehensive research on the Irish economy and its companies. Whereas a small independent broker might struggle for profile in a bull market, current conditions allow us to add value to corporates and investors alike.

Alongside our institutional equity research, sales and trading capabilities, we are also developing our bond business. With bond issuance across the western world set to expand sharply in the credit crisis, bond broking is undergoing something of a renaissance. Bloxham is one of just two Irish brokers operating in the bond market and we have positioned our bond research and sales teams to serve clients in Ireland and overseas.

Retail stockbroking has evolved into wealth management over recent years. We believe wealth preservation will emerge as the key theme during 2009 and we are positioning our advisory team to support that demand. In this context we expect strategies that focus on income generation through dividends to form a core part of equity portfolios in the foreseeable future. We also believe clients must have the option to take long and short positions in various asset classes in order to hedge their exposures. At Bloxham we have identified products and assets which provide such protection.

In asset management our flagship fund, the Bloxham High Yield Fund, has again outperformed the global stockmarkets, albeit in a down year. The fund focuses on conservative, financially-strong companies with relatively stable cashflows. Interestingly, despite the severe stockmarket fall this year, we have noticed a resumption of positive cashflow into the fund in recent weeks, with investors attracted by the 5 per cent dividend yield and high quality portfolio.

During the course of 2009 Bloxham is intent on further building its franchise in very challenging markets. With the support of its minority shareholder – FBD – Bloxham has the resources and human capital needed to provide research and advice to clients across the investment spectrum, from corporates and government agencies to retail clients. In previous investment cycles, it was those stockbrokers that are well capitalised with strong skillsets that grew fastest. Bloxham intends to follow a similar path as markets stabilise and recover over the next few years.

Pramit Ghose is managing partner of Bloxham Stockbrokers.

Primary research never of more value

The Merrion Capital research model works ahead of the curve, and provides insights and money making information to the management of quoted companies themselves writes Aisling Vaughan.

Through 2007, Merrion was very bearish on the outlook for 2008 and we articulated that view in FINANCE last December. Our cautiousness stemmed at the time from the slowdown in the domestic construction market and its impact on the Irish banks and construction stocks as well as concerns regarding the global credit crisis. While this overall view turned out to be correct, we did not anticipate the severity of the impact of deleveraging on the global financial sector and on economies worldwide. We believe that this process has further to play out, both internationally and here in Ireland, and therefore we expect that the outcome for 2009 economic growth will be worse than current consensus expectations imply. However, we believe that there will be great recognition of value in the Irish stock market well in advance of the nadir in economic data. We will look closely for inflection points that signal a reversal of trend.

Research focus

While we view meeting with companies' managements as an important step in our research process, the value of primary research has never been as evident as in this bear market. In such a rapidly changing economic environment, primary research checks, such as surveys and other due diligence, can identify business trends earlier than the companies themselves may note. Management guidance has been of lower value in 2008 as most companies have struggled with the speed and magnitude of the deterioration in their operating back drop. Relying on company guidance as the sole basis for equity research results in a product that is constantly behind the curve. The Merrion research model, since the formation of the company in 1999, has been focused on independent, high quality research which is timely, objective and most importantly, provides money making original ideas for our clients. In a difficult environment, investors place even more emphasis and value on the robustness and objectivity of equity research.

As we finish 2008, the future composition of the Irish equity market remains uncertain. At the time of writing, the ISEQ index is 75 per cent down from its high in February 2007 and recapitalisation of the financial sector and M&A between some of the larger financial institutions looks increasingly probable. With private equity funds touted to possibly become major shareholders in some of the largest companies in the market, this will reduce the traded volumes and free floats of these shares. This puts further pressure on liquidity of stocks, which has been low since the ban on short selling of financial stocks on September 19. At the end of September, the value of equities traded on the Irish stock exchange year to date had declined by 37 per cent versus 2007, with Q3 down 47 per cent.

The combination of small market capitalisations and lack of liquidity in many stocks leaves the Irish stock market peripheral to international investors. Over the previous decade up to 2007, the superior economic growth story and the prevalence of companies on the exchange correlated to that growth story attracted a range of overseas funds to invest in Ireland. With an economic recovery unlikely to materialise until 2011 in our view, the ongoing challenge for Irish stockbrokers is to generate persuasive stock specific research ideas to continue to attract international investors to the market. Domestic institutional funds now allocate less than 9 per cent of their managed funds to Irish equities, down from 16 per cent a year ago. Therefore, the importance of the international investor to the market and to Irish stockbrokers has never been greater. This is at a time when all funds, irrespective of their investment mandate, are under pressure, not only to achieve investment performance, but also to survive in this tough environment. With a diversity of available stock opportunities across geographies and sectors, it is up to both analysts and salespeople to present strong stock ideas with conviction to catch such investors' attention. Furthermore, once a stock recommendation has been made, the key is to closely monitor the company and its industry for any changes or inflection points that can impact on this recommendation. Merrion has never relied on making directional calls on either the market or the economy for its stock ideas. This strength and focus on bottom up primary stock research will continue to be a key differentiating factor over the next few years.

The importance of client service in all forms has increased. With the markets in turmoil, clients place a value in personal contact from their salesperson and analysts to allow for a more rigorous discussion of stock ideas. Regular updates are important to overseas investors who may not look at the Irish market and economy on a daily basis and therefore rely on Merrion to be their 'person on the ground'. Our institutional team of salespeople and analysts are constantly visiting with investors around the world.

2009 and beyond

Our belief is that the Irish economy will not experience recovery until 2011 as the impact of the credit crunch, both in Ireland and internationally, and the deleveraging process continues to work its way through to the end consumer. Earnings forecasts have collapsed, with the negative revisions probably getting close to a bottom. Peak to trough, earnings in the Irish quoted companies are expected to fall close to 60 per cent and the consensus is that this decline will bottom in 2010. However, the market has moved its focus onto balance sheets, debt levels, pensions and such issues. Clearly stock prices will discount a recovery in advance, just as they did in 2007 on the way down. Our goal is to identify at what point share prices are discounting fully the impact of the recession on all parts of the companies' businesses, both operationally and financially. Irrespective of the economic backdrop, there are always investment opportunities. Clients will reward stockbroking firms who generate money making ideas on the back of thorough thought provoking research, which is articulated strongly by both analyst and salesperson. Merrion can continue to play a strong role in providing this service to our clients.

Aisling Vaughan is head of equity research at Merrion Capital

KPMG

The Finance Bill

We broadly welcome the tax changes included in the Budget, provided they are followed with the necessary cutbacks on the spending side. Unfortunately, all that has happened since the Budget is that the Finance Bill has increased personal taxes further and little progress other than promises has, to date, been made on cutbacks on the spending side. This is most disappointing.

The financial services sector

First, the good news for the financial services sector:

- Reliefs etc which are confined to residents of a double tax agreement state will in future apply from signing of a draft treaty and not, as is usual at present, following its ratification by both parties. That latter process can take up to two years even when the parties move relatively swiftly. However the actual reliefs provided by each treaty will come into effect as at present ie usually in the tax year following that in which it is ratified by both parties.
- The deduction for an equalisation reserve, previously provided in 2008 for credit reinsurance companies is now extended (with retroactive effect to 15 July 2006 when such reserves became a legal requirement) to credit insurance companies. It remains to be clarified that non deductible reserves created voluntarily pre 15 July 2006 will not be taxed on release, as seems possible at present.
- The exemption from Irish income tax on Irish source interest which is presently available to residents of the EU or of a double tax treaty state is extended to cover interest which is exempt from withholding tax under the wholesale debt instruments provisions; and to discounts (which of their nature are free of Irish withholding taxes) on securities issued by an Irish resident company or investment undertaking in the course of a trade or business. Do we shout *"hip, hip, hurray"?* or groan out *"how long, before this relief by a thousand lashes, gets all of what the industry is looking for including a full exemption from charge where there is an exemption from withholding tax."*

Brian Daly, Editor

- The levy on ATM and Debit cards is halved to €2.50 each for 2008 and later years. However the levy on credit cards is unaffected at €30 per card and the charge on each cheque went up to 50 cents from 15 October last. We are moving towards a tax system friendly to electronic commerce at snails pace rather than at even Ireland's modest version of broadband speed.
- The research and development credit has been transformed! Not only is it raised to 25% of the expenditure but it may now be repaid in cash where for one reason or another (losses?) tax relief cannot be availed of within broadly three years before or after the year in which expended. And the most important reform of them all! – it is no longer based on incremental expenditure but on all expenditure over the level in 2003, which is so close to not being incremental that it does not matter. At last! After several years of urging such a change as being essential if the relief is to be of any use, it is finally adopted. This relief is relevant not only to "white coat" trades but can be availed of by "white collar" trades such as financial service trades also. The imposition of a time limit of 31/12/2008 on making of claims for 2007 and prior years is unfortunate and legally dubious.
- Although of limited relevance to the financial services sector, the proposed 3 year tax exemption for small start up companies is a welcome acknowledgement of the need to restart the indigenous economy.

Secondly, the usual disappointments:

- The 1% stamp duty charge remains on transfers of Irish shares. The stamp duty charge continues to apply to documents executed in Ireland even if not concerned with Irish assets, and to transfers of foreign assets related to Irish shares.
- The suggestion by the chambers of commerce, IBEC and others that all foreign withholding taxes be pooled for credit purposes against Irish tax has not been acted on. We remain with limited pooling of some credits only.
- Larger companies continue to be obliged to account for Preliminary Tax a month pre year-end when they cannot possibly accurately know what their ultimate tax liability will be. This is made more grievous by the fact that a newly introduced obligation, to account for part of preliminary tax half way through the period is based on a right to compute it by reference to the prior period's final tax liability. It seems to be recognised that a finance director cannot forecast a tax liability 6 months in advance but it is assumed he can do so a month in advance. We seem to be governed by those who have little experience of the uncertainties of commercial life, the complexity of modern accounting or the Byzantine nature of the tax code they have constructed.

Mistakes

Pensions: The cap on the level of income by reference to which pension contributions can be made in tax relievable form has been reduced from €275,239 in 2008 to €150,000 in 2009. Future indexation of that amount will be at the minister's discretion. This is an outrage. The minister who proposes this measure for the productive sector of the economy is himself subject to no similar constraints in accumulating a pension – and potentially, several pensions. The pensions provided by the productive sector's taxes for the political classes and public service are outrageously generous and cry out for the axe to fall on them. But instead it is at the productive sector the axe is aimed. There is an echo here of another measure – the levy on employee car spaces. That will not apply to ministers or judges or others supplied not only with a state parking space but a state car. It seems that all sense of shame or accountability is lost in Merrion Square.

The residence rules: An individual is regarded as resident in Ireland for tax purposes if present in the state for more than 183 days in any year or for more than 280 days in any consecutive year where the days presence amount to at least 30 in both years. The existing rule was that a day's presence was determined solely by physical presence at midnight. The finance bill has amended this rule to provide that any presence on a day constitutes presence for that day. Cross border workers living in Northern Ireland will now almost certainly be Irish resident under the new rule.

Tax Monitor KPMG

Now, one rule is as good or bad as the other – they are arbitrary anyway. But the spirit behind the change is disquieting and it seems to be dictated by a campaign run for some years by some elements in an opposition party. That spirit seems driven by hostility to very successful individuals who emigrate for whatever reason but thus leave the Irish tax net on their non Irish source income. Even if the motive for leaving Ireland is to minimise Irish tax payments, do we want to make it more difficult for such successful entrepreneurs to carry on and direct businesses in Ireland? They have gone – so let's get over it and make the best of that situation. And the best is if they continue to benefit the country by conducting business here. But class warfare must have its day, it seems.

This change to the manner of determining residence status applies for all tax purposes including capital acquisitions tax.

It is unfortunate that the need to remove potentially penal Capital Acquisitions Tax burdens from expatriates seconded to Ireland by Foreign Direct Investors was not addressed.

Resting on contract and sub sales: One of the most silly and potentially damaging measures in recent finance bills was the proposal to effectively end "resting on contract" and the related sub sale relief from stamp duty. They were well understood features of the stamp duty code which were vital to the construction industry. On the astonishing suggestion that the Revenue were not previously aware of these centuries' old measures, it was proposed to repeal them without consultation. At the very last moment the minister was persuaded to hold off the implementation of this measure. But instead of admitting that it was a monumental mistake (and ensuring that steps were taken to ensure no similar silly idea would again be recommended to a minister) the finance bill proposes various technical changes to it including a relief in the case of public private partnerships, suggesting that this disaster may yet be implemented.

EU law compliance: Two tax provisions which were in breach of EU law have been amended to make them compliant. That is good – they are the extension of agricultural relief from capital acquisitions tax to land anywhere in the EU, and the extension of CGT remittance relief to disposal of UK assets. But the amendments are stated to apply only from 20 November 2008. in fact these provisions were unlawful since at least 1972 so far as concerns CGT and 1974 in the case of capital acquisitions tax. The State has an obligation to be compliant from those dates. We have seen the disgraceful efforts (unsuccessful it seems) of the UK to avoid the consequences of their controlled foreign company legislation being declared contrary to EU rules. We should not copy that type of conduct.

Levies: Maybe higher taxes are needed in the short term since the minister has not yet seen fit to tackle spending. But why introduce a whole new tax with its own rules taking up eleven pages of the bill when it seems as if all that is intended in reality is a standard rate of tax of 21%, a higher rate of 43% and a super rate of 44%? Does the minister believe that 11 pages are required to conceal what he is doing? If you add in the health levy and PRSI which total 5.5%, a self employed person can now be taxed at 49.5%. We are a long way off the disastrous response of the government in the early 1980's to a recession when a top income tax rate of 65% applied from £10,000 of income and emigration was limited only by the capacity of the ferries. But the minister should pause now and recollect those days.

Would you like more?

The bill as published is 204 big pages. You can find a more comprehensive account of the contents on *www.kpmg.ie*. That account will be updated for developments until the Bill becomes law.

Finance (No.2) Bill 2008

While there are no VAT measures introduced in Finance (No 2) Bill 2008 which relate directly to the financial services sector, there are a number of measures which, when taken together, will have a subtle and material impact on the sector. In particular, additional VAT costs will arise for the sector together with additional compliance obligations and a new relationship with the Revenue Commissioners.

VAT Rate increase

The Finance Bill confirms the Budget announcement of an increase in the standard rate of VAT to 21.5%, with effect from 1 December 2008. The timing of issuing invoices will be critical in determining the VAT rate chargeable on invoices – particularly where VAT is not fully recoverable by the purchaser such as in the financial services and insurance sectors. Indeed, for existing contracts in place between parties the precise terms of that contract entered into are critical as this will determine whether the supplier is entitled to pass on the VAT rate increase.

Niall Campbell

This rate increase not only represents a real cost to the financial service sector. Businesses must also consider their IT systems and the other changes necessary to reflect the new rate of VAT, such as the changes necessary to correctly account for VAT on Fourth Schedule Services bought in from abroad post 1 December 2008.

Property

The Bill makes some technical amendments to the VAT on property legislation which primarily correct drafting errors in the new legislation which was introduced with effect from 1 July 2008. These include amendments to the effect that certain equity sharing and other 'non standard' property leases will no longer be treated as deemed freehold sales for VAT purposes but will follow the new VAT treatment for leases.

In addition, Finance Bill 2008 introduced rules to ensure that a minimum amount of VAT was accounted for in relation to connected party lettings where the tenant entity is less than 90% VAT recoverable. The new Bill introduces measures to close off a potential loophole which existed in relation to the use of VAT grouping to avoid a VAT charge. This will result in the landlord suffering a clawback of VAT previously recovered in relation to his acquisition or development of the property. The provision has retrospective effect where the VAT group was put in place since 1 July 2008. Any entity which sought to avail of VAT grouping to avoid a VAT charge under the new rules will need to urgently and seriously assess the impact of this provision.

Penalties and audits

A significant provision introduced in the Finance Bill is the codifying into legislation of existing practices dealt with in the Revenue Audit Code of Practice for the imposition of penalties, including the level of mitigation

KPMG

applicable. The procedure for making voluntary disclosures to Revenue is now included in legislation and will result in taxpayers having to adopt a more formal approach in their dealings with Revenue audits and settlements, which could significantly change the nature of the relationship and interaction with Revenue.

The standard penalty for a VAT compliance breach has been increased to €4,000. Additional penalties of €3,000 to €5,000 apply for various careless or deliberate acts or omissions.

Significant increased sanctions have also been introduced to combat carousel fraud.

Refund of tax - unjust enrichment

Additional measures have been introduced in relation to unjust enrichment. The rationale in adding these additional measures is to give Revenue protection against large retrospective VAT reclaims such as those arising from decisions of the European Court of Justice. These measures could have an impact on future decisions affecting the financial sector such as those relating to the funds and pension industry.

The new measures provide that Revenue is obliged to make a refund of an overpaid amount of VAT unless they determine that the claimant would be unjustly enriched by the refund. The Bill provides Revenue with greater powers of enquiry and introduces additional measures for determining whether a trader will be unjustly enriched where a VAT refund is made by Revenue. The Bill also provides that the claimant must set out additional details in relation to any claim and furnish all relevant documentation requested by Revenue.

A recently issued statutory instrument provides that all taxpayers whose affairs are dealt with by Revenue's Large Cases Division and certain specified public bodies are required to file their returns electronically. As this change is effective from 1 January 2009 (1 January 2010 for certain public bodies and other taxpayers) the next VAT return due for submission (the November/ December 2008 VAT return) must be completed online. Those required to be registered from 1 January 2009 are currently being informed by Revenue. Taxpayers falling into this category should take immediate action to register as soon as possible to ensure that their new ROS account is operational before the next VAT return falls due for submission.

For other taxpayers, there is a benefit in registering in advance of the 2010 deadline in any event as the Finance Bill further confirmed the Budget announcement that the filing and payment deadline for VAT returns filed via ROS has been extended by four days to the 23rd of the month following the end of the taxable period.

Other VAT measures

The Finance Bill contains an amendment to clarify that teabags and coffee in non-drinkable format is zero-rated. Tea and coffee supplied as a drink remains taxable at the reduced rate of 13.5% rate.

Finance Bill introduces a tour operators margin scheme with effect from 1 January 2010. The scheme applies to tour operators who act as principals by purchasing services (such as transport/accommodation) from third parties and selling them on to travellers. Under the new scheme, tour operators will be subject to VAT on their profit margin. Also, normal travel agency services will become subject to VAT at 21.5% (they are currently exempt). The net impact of the amendments for the Financial sector is an additional irrecoverable VAT cost on the purchase of certain travel services.

Niall Campbell is a tax partner in KPMG.

Foreign tax credits and double taxation agreements

Successive Finance Acts have introduced measures that have improved Ireland's attractiveness as a holding company location and as a gateway for international investment. Conor O'Brien examines some of the matters that still need to be addressed, if Ireland is to consolidate its position and seek out new opportunities in the face of increased competition and the global financial crisis.

Relief for foreign Tax?


Conor O'Brien

Extensive lobbying took place prior to the first Finance Bill of 2008 concerning the tax treatment of foreign dividends. The Bill and subsequent Act then introduced a number of changes to the taxation of foreign dividends received from companies resident for tax purposes in EU Member States or tax treaty countries. Briefly, this legislation provided that foreign dividends paid from EU or Tax Treaty countries out of trading profits will be subject to corporation tax at the rate of 12.5%, where the necessary election is made by the receiving company. Foreign dividends received from companies not resident in an EU or tax treaty country will continue to be taxed at 25%. This legislation has brought additional layers of complexity to what was already a technically challenging area. In addition, the new rules for the pooling of foreign tax credits removed the ability to offset surplus tax credits arising out of dividends taxable at 12.5% against tax on dividends taxable at 25%, - they must be carried forward for offset in the future. Prior to Finance Act 2008, although foreign dividends were taxed at 25%, subject to certain conditions, full credit was broadly available in respect of overseas tax suffered.

The lobbying that had taken place focused on the introduction of a participation exemption for dividends received from Member States and tax treaty countries, thereby exempting such dividends from Irish taxation. This would have placed the tax treatment of dividends received by an Irish resident corporate from domestic companies and from EU and treaty countries on an identical playing field. Indeed the UK high court recently said that similar legislation was contrary to EU law. We believe that this legislation should be revisited and replaced with a full participation exemption in relation to dividends.

Irish tax legislation as it stands post Finance Act 2008, provides that in the event that credit relief for foreign tax is not provided by means of a tax treaty in relation to dividends, trading interest and trading branches, credit relief and pooling of tax credits may be unilaterally available under domestic Irish legislation for foreign tax suffered as a result. One significant gap in our legislation is the absence of a form of pooling relief for foreign tax on royalties received in this country. Currently, a royalty received by a company, which would be regarded as trading income, may be subject to withholding tax in the paying country. Credit may be available against the Irish tax charge arising where a double taxation agreement is in place between Ireland and the paying country. Ireland has certain unilateral provisions allowing similar credit relief, but they apply in limited circumstances. Where credit cannot be given, double taxation occurs, thereby increasing the recipients' effective tax rate on this income.

Tax Monitor KPMG

Ireland is now regarded as possessing reasonably favourable holding company and financing regimes from a tax perspective, but it also derives significant income from the technology sector licensing its products to foreign locations. This sector is a significant player in the Irish marketplace and no similar unilateral reliefs exist for foreign tax suffered on software and certain other royalties which cannot be eliminated via a tax treaty or otherwise. It is to be noted that such royalty-generating activity may qualify for the 12.5% rate of corporation tax, but this benefit is significantly eroded where foreign tax is suffered, and serves to increase such companies' effective tax rate. For them, Ireland as a preferred trading location may diminish given that their effective rate of tax is greater than 12.5%. The lack of double tax relief for foreign tax paid on royalties is a significant lacuna in the Irish tax code which the recent Finance Bill released on 20 November, has not addressed. We would ask that this is addressed as a matter of urgency and amendments are included in the later stages of the Bill.

'We believe that this legislation should be revisited and replaced with a full participation exemption in relation to dividends.'

Ireland's current treaty network:
Tax treaties themselves play a pivotal role in facilitating international trade. These seek to eliminate or at least reduce tax impediments to cross border flows. Our treaty network is critical to obtaining further foreign direct investment.

Ireland's current treaty network consists of 45 countries. This includes Chile, which has been ratified by the Chilean government and will be effective from 1 January 2009. In addition Ireland has also signed new treaties in 2008 with Vietnam, Macedonia, Turkey, Malta and Georgia. These treaties, subject to the necessary ratifications being completed by both parties, need to be included in the forthcoming Finance Act, if they are to be effective in 2010. At the time of writing, we understand that negotiations for new treaties with a number of other countries have been concluded and are expected to be signed in the near future.

Revenue have made a significant effort in this area with 5 treaties already being signed in 2008. They have also constructively engaged with industry on the treaty process and their approach is an excellent example of industry – government cooperation. Continued expansion of the treaty network is anticipated and will be very welcome.

Unilateral reliefs and the extension of definition of "relevant territory":
Various unilateral reliefs and exemptions under Irish tax legislation are available for non-resident companies which are resident for tax purposes in a "relevant territory". These include withholding tax exemptions on dividend payments by an Irish resident company to a company which is resident for tax purposes in a "relevant territory". A similar exemption exists for withholding tax on interest payments made in the ordinary course of trade by an Irish resident company to companies who are resident in a relevant territory. In each of the above exemptions, "relevant territory" means an EU or EEA Member State or a country with which Ireland has a double taxation agreement. Therefore in the event that the recipient company is not so resident, the withholding tax obligations in relation to such payments apply.

Finance (No.2) Bill 2008 (as initiated) has made some significant changes in this area by extending the definition of "relevant territory" for the purposes of various unilateral reliefs, to countries with which a treaty has been signed but not yet ratified. The definition of "relevant territory" has also been extended for the purposes of the Capital Gains Tax exemption on the disposal by a parent of shares in its subsidiary, subject to conditions, if the subsidiary is resident for tax purposes in a "relevant territory" at the time of disposal. In addition to these changes, we would encourage the government to insert the extended definition of relevant territory into the offshore funds and life policies legislation so that the definition of an offshore state includes countries with which a treaty has been signed but not yet ratified. This should ensure that countries where treaties are signed but not in force, fall out of the definition of bad offshore funds.

'We also believe that the OECD requirement should be dropped from the offshore funds legislation.'

We also believe that the OECD requirement should be dropped from the offshore funds legislation. At present, countries such as South Africa (which we have a tax treaty with) are bad offshore funds and we would suggest that countries who are invited to join the OECD, or who participate in the OECD and with whom we have a tax treaty, are excluded from the bad offshore funds definition.

Conclusion:
It has been speculated, although it is far from certain that the global financial markets should begin to recover in late 2009. When these markets recover, it is essential that Ireland positions itself as a jurisdiction of choice for international investment and trade. The changes to foreign tax credit relief that we have outlined and the expansion of our treaty network can only serve to benefit Ireland in the short and long term.

Conor O'Brien is a tax partner at KPMG.


IF EVERYBODY IS
THEN SOMEBODY IS N
STOCKBRO
Institutional Equities
Wealth Management
Corporate Finance
Tel: +353 1 240 4200
Tel: +353 1 240 4111
Tel: +353 1 240 4100
Merrion Stockbrokers Limited Block C, The Swe
Merrion Stockbrokers Limited is a member Firm of the Irish Stock Exchange

The right corporate treasury risk management tools for 2009

Risk management in 2009 will play a greater role for all treasury operations than in recent years and corporates must ensure they are prepared for all eventualities. In the third of the three part FINANCE Corporate Treasury autumn/winter series, a select panel of corporate treasury specialists outline the best solutions and strategies for corporates to hedge their risk.

Background to the crisis - and the hedging implications

In an uncertain market there is a greater need for cashflow planning, budgeting, protection and certainty – and some hedging products provide flexibility which will tick all those boxes, says Criona Fitzgerald.

Since 2007, markets have been driven and dominated by talk of sub-prime lending, the resulting credit crunch, volatility, lack of liquidity, interest rate cuts, house price declines, recessions and basically the worst financial situation ever. The uncertainty continues and it seems this storm will continue to rage for some time to come. How did we get here?

Sub-prime lending and the credit crunch

Sub-prime lending is a financial term that was popularised by the media during the credit crunch which escalated in 2007 and involves financial institutions providing credit to borrowers deemed “subprime”. These borrowers have a heightened perceived risk of default. Due to the increased risk of the subprime borrower, the access to credit comes at the price of higher interest rates, increased fees and other costs.

A credit crunch arises when there is a sudden reduction in the general availability of loans or a sudden increase in the cost of obtaining credit from banks. Banks increase the costs of borrowing, thus making borrowing more difficult. If the solvency of other banks is in question, monetary conditions change such as the central bank unexpectedly changing interest rates or the central bank instructing the banks not to engage in lending activities.

Careless and inappropriate lending practices can result in a credit crunch, reducing the availability of credit, increasing the cost of credit with increased interest rates and banks may even refrain from lending. As a result, there is an increased need for customer deposits as the markets shut down.

Even with central banks cutting interest rates, variable rates are still very high due to the fact that banks are simply not lending to each other or the wider economy. There are many plain vanilla products which treasurers can use to hedge their interest rate exposures and many are going back to basics as regards hedging strategies.’

As a result of the credit crunch, attention has been drawn to recent subprime lending practices. The controversy surrounding US subprime lending intensified due to the extent and the magnitude of the lending and credit crisis that has dominated markets since 2007.

Beginning in late 2006, the US subprime mortgage industry entered meltdown, when a steep rise in the rate of subprime mortgage defaults and foreclosures caused more than 100 subprime mortgage lenders to fail or file for bankruptcy. The failure of these companies caused the prices in the mortgage backed securities market to collapse, threatening the US housing market and economy as a whole. The crisis is ongoing and has had far-reaching consequences across the world.

Subprime debts are repackaged into investments and sold to banks, traders and hedge funds on the US, European and Asian markets. So, when the subprime crisis hit, these investments became impossible to value or some would argue valueless, which led to heightened levels of uncertainty in financial markets. Nervousness set in and banks tightened their lending belts to each other and to their customers which resulted in higher interest rates and difficulty in maintaining credit lines. Banks did not know what exposures other parties had to those “toxic” assets. With markets for these securities closed, banks can no longer repackage the debt and sell it on.

And what unfolded were businesses, which had no direct connection to the US subprime market, suffered when the banks reined in their lending practices.

Liquidity crisis

The subprime problem soon affected the very survival of large investment banks and financial institutions which in turn led to a liquidity problem in the marketplace. We have seen concerted efforts by central banks and governments worldwide to tackle this problem. In October, a large number of central banks cut interest rates in a coordinated effort to bring stability back to the marketplace. However, the crisis continues to worsen and we have seen traditional safe-haven currencies such as the US dollar, Japanese yen and Swiss franc benefit as investors move their funds in to these currencies. Liquidity has dried up and interest rate spreads remain wide.

A liquidity crisis is triggered when an otherwise sound business is unable to access credit. The crisis is ongoing and the financial stability of the financial industry, in particular investment and mortgage banks and insurance companies, is forcing central banks to inject liquidity in the financial system. The sharp widening in credit spreads is a sign that there are serious credit problems and many countries have turned to the International Monetary Fund (lender of last resort) for help.

'An appropriate hedge will reduce risk and boost return. Variable rates can be affected by spikes in interest rates, spreads, liquidity, and variable rates offer no protection. in uncertain times, certainty of cashflows is paramount and even if a borrower doesn't want to hedge 100 per cent of their debt it may be worthwhile hedging a portion.'

Property explosion

The property boom is a distant memory and what remains are banks focusing on managing their existing loan books and customers looking to renegotiate the terms of their borrowing facilities. The reality is no one can predict how long this downturn will last.

It all started with US sub-prime lending and money poured into property. Lots of people took out sub-prime mortgages which have a higher risk of default. House prices were over-inflated and when the real economy started to slow house prices fell, people started defaulting on their loans and banks were left with bad debt.

Banks have turned to their governments for aid and many rescue packages such as government guarantee schemes are being negotiated worldwide. Longer term, this will be bad for the banking industry as there will be more restrictions in place.

Central banks around the world are in the process of cutting interest rates in an attempt to build consumer confidence. However, lowering interest rates alone is not going to solve the problem. Even though base rates worldwide are being slashed, interbank rates remain stubbornly high and while spreads have narrowed somewhat there is still room for improvement.

Volatility will be high when the economic outlook is uncertain and high volatility will result in large changes in interest rates. Pressure on governments has mounted as banks are being recapitalised and lending needs to be resumed as businesses are finding it difficult to get credit, which ultimately will lead to job losses and business failures.

Hedging strategy

Interest rate hedging strategies can be tailored to suit the client's needs. There is huge uncertainty out there and this will have a knock-on impact on borrowing costs. Therefore, there is a greater need for cashflow planning and budgeting and for protection and certainty. Many hedging products will provide flexibility while providing the opportunity to gain from favourable interest rate moves while limiting risk. As interest rates fall, now is an appropriate time to look at your hedging strategy.

With the volatility and uncertainty continuing to escalate with no end in sight how can you protect yourself? Most countries around the world are in recession and financial markets are experiencing continued turmoil. Certainty of cashflows is now more important than ever. Hedging strategies reduce exposure to a given risk. With interest rates there are two types of risk. First, if on a floating rate you're exposed to fluctuations in monetary flows of interest and therefore cashflows are unknown. Secondly, if on a fixed rate cashflows are known but this can be favourable or unfavourable depending on interest rate movements. In times of financial turmoil, certainty of cashflows is key.

Only recently the Governor of the Bank of England warned that there may be worse to come in this credit crunch with the clampdown on lending. Nervous banks are increasingly reluctant to lend to each other and uncertainty and fear drive markets. As a result variable interest rates continue to remain high. It is important to be aware of the relationship between central bank base rates and liquidity. When the market is short liquidity, interbank money market rates shoot up, causing a shortage of liquidity and increased volatility.

Interbank lending rates continue to remain volatile raising concerns that debt markets could be in for further pressure. The three-month dollar Libor which is the benchmark rate for consumer and corporate loans has been under pressure since the credit crunch took off in the autumn of 2007.

In a volatile interest rate environment, it is important that borrowers protect their exposures. Even with central banks cutting interest rates, variable rates are still very high due to the fact that banks are simply not lending to each other or the wider economy. There are many plain vanilla products which treasurers can use to hedge their interest rate exposures and many are going back to basics as regards hedging strategies. There is certainly plenty of choice out there.

'More sophisticated products offer flexibility and protection to allow clients to benefit from favourable moves. Whatever your view on rates, it is important to discuss your cashflow requirements with your bank.'

The plain vanilla products offer clients certainty and simplicity, without upfront premium. More sophisticated products offer flexibility and protection and allow clients to benefit from favourable moves. Whatever your view on interest rates is, it is important to discuss your cashflow requirements with your bank to ensure your business does not suffer because it hasn't the most appropriate strategy in place.

An appropriate hedge will reduce risk and boost return. Variable rates can be affected by spikes in interest rates, spreads, liquidity, etc and variable rates offer no protection. In uncertain times, certainty of cashflows is paramount and even if a borrower doesn't want to hedge 100 per cent of their debt, it may be worthwhile hedging a portion.

No one can estimate how long the current turmoil will continue for. What is important, is that the financial sector learns from their mistakes and move on. Regulators are encouraging banks to start lending again. Large losses will be taken as a direct result of this credit crunch but the world economy will gradually return to business.

Criona Fitzgerald is head of corporate foreign exchange at Capital Markets at Investec Ireland Ltd.

The view beyond year end and into 2010

Financial markets will remain volatile through the year end, and conditions will remain challenging next year, and even into 2010. The Head of Treasury-Ireland at Barclays Capital, Ciaran Kane outlines the approaches and products available to manage markets-related risk across currency, interest rate and commodity markets, the latter being just another area that bears continued attention, as the risk of a resurgence of oil prices indicates.

A series of events that began with the failure of a number of specialist hedge funds in the US culminated in a number of investment banks failing or being forced into mergers adding up to a rapid de-leveraging of risk that had been built up over the previous five years. This de-leveraging has occurred in a systematic way, the most vulnerable institutions being picked off first. It started with the withdrawal of funding from specialist programmes, many linked to the sub-prime mortgage market. This rapidly spread to the main participants in these markets, the large broker-dealers, with Bear Stearns becoming the first casualty in March 2008. A period of relative calm followed before markets came under further pressure in September.

The trauma in the investment banking world then spread out across the banking system, driven by a strong aversion to non-government credit by investors. The commercial paper market ground to a halt, impacting on commercial bank funding requirements and short dated government securities fell to all time lows. At one point in October, yields on three month US Treasury Bills fell to five basis points (0.05 per cent), a clear indication that investors had such little confidence in the banking system that they were prepared to accept any return, as long as they perceived that their money was safe. We saw some bizarre situations – at one stage the cost of buying credit insurance on the US Government (the original risk free issuer of debt) exceeded the cost of buying credit insurance on McDonalds!

Government intervention became inevitable across the world, if only because there were no other funding avenues available. Various packages have been put in place around the globe ranging from guarantees of bank liabilities to the injection of capital into banks by respective governments, and in many cases a combination of both. The appropriateness of the various strategies adopted will vary based on the country, the type of institution and the market's perception of the risk of that institution, and indeed, that country. Bank share prices have continued to fall, despite government intervention, suggesting that investors remain uncertain about the immediate prospects for the banking sector.

'The challenges facing corporate treasurers and finance diectors in the months ahead will be unusual in that they may not have been faced before, but they are not by any means insurmountable.'

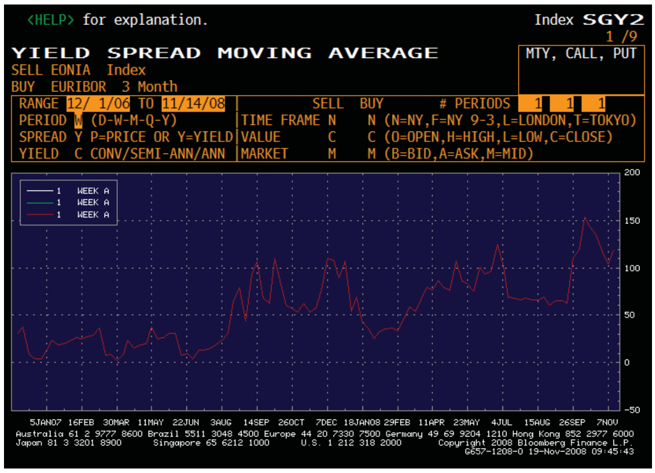
While current market conditions can be described as very nervous, the actions by governments have led to a degree of stability in the money markets. A key issue for most borrowers is the significant spreads that have opened up between overnight / central bank rates and inter-bank (LIBOR) rates as liquidity in the inter-bank markets has dried up. Many corporate borrowers will source funds at a LIBOR (or EURIBOR) based rate. While these rates have moved lower in recent weeks, they have lagged central bank rates. It is likely that this situation will persist for the time being, with further pressure on rates over the year end, traditionally a period of tightness in money market rates. Significant reductions in the spreads between EURIBOR rates and central bank rates are unlikely until a degree of confidence returns to the inter-bank markets, probably well into 2009. In terms of actual levels for interest rates, we see Euro-zone rates moving to 1.75 per cent by Q2 next year – a 0.50 per cent cut in each of the next three quarters. We see GBP rates moving even lower than that with a 1 per cent cut in Q4 and two 0.50 per cent cuts in Q1 taking base rates to 1 per cent by the end of February 2009.

The currency markets remain extremely volatile with large daily swings in rates becoming the norm. This suggests a lack of liquidity in the market but also a reluctance amongst currency market participants to take longer term views due to the level of uncertainty. It has some interesting implications for corporates with foreign exchange exposures arising from their underlying businesses. Recent market movements in EUR/USD have been positive for USD sellers as the currency strengthens, while the opposite is true of EUR/GBP where the currency has depreciated by over 20 per cent since late 2006. While we continue to expect continued USD strength and GBP weakness in the short term, we do expect a reversal of both trends in the medium term. In particular GBP has been driven by a view that the UK economy is heading into a severe recession. While we would concur with that analysis, the reality is that the Euro-zone economy is heading in a similar direction, with a number of important economies already technically in recession. Our six and 12 month forecast for EUR/USD is 1.35 (from 1.2650 currently) and 1.45 respectively. We believe EUR/GBP will move back below 0.8000 (currently 0.8450) within six months and settle back into a range based around 0.7700 in the medium term.

We have seen a broadly similar story across equity markets and commodity markets. Within the trend towards weaker global equities, there has been much intra-day volatility and a lack of liquidity. The sell-off that began in the financial sector has become much more broadly based. The big story on the commodity markets has been the sharp sell-off in oil prices, from their peak at $145 per barrel in early July to $56 at time of writing. This has been largely based on a widespread slowdown in economic activity, not least from China and India. We believe that this will be a relatively short lived decline, with crude moving back into a $90 - $100 range in the first half of next year, before

EUR/GBP exchange rates 2003- November 2008

Euribor Yield Spread Moving Average 2007- Nov 2008



EUR/USD exchange rates 2003 - November 2008

Oil prices 2003 - November 2008

Source: Barclays Capital

finishing 2009 in a $110 - $120 range.

The events of the last 15 months have wide ranging implications for corporates across their entire businesses. The financial markets related effects are compounded by the economic difficulties faced by all major economies as most of them slip into recession. This translates into a range of challenges for the corporate sector and puts a premium on a focused approach to financial risk management. Among the challenges are:

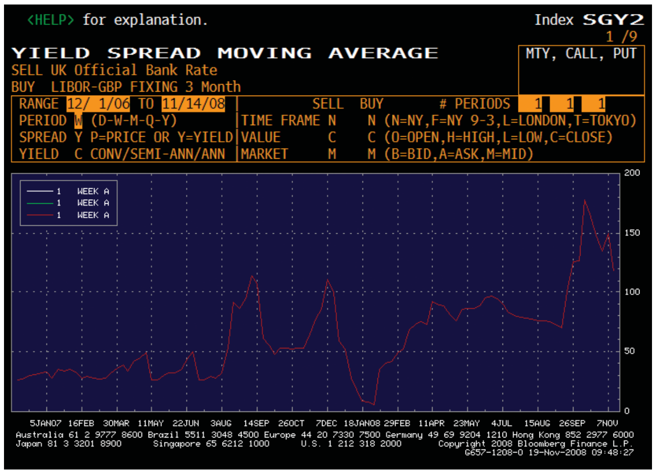
- An increase in counterparty risk. This is linked to worsening economic conditions putting pressure on trading partners, both suppliers and customers. Unusually, at this stage of the cycle, many banks have experienced difficulties, and notwithstanding the state guarantees in place, many corporates are spreading their risk across a wider range of banks than before.
- An increase in borrowing margins as banks start the long (and inevitably painful) process of re-building balance sheets. This situation is exacerbated by the capital position of many banks which means that new funds for lending will be less freely available than in the past. This situation will only be resolved when banks raise fresh capital. While we have seen some progress in this area in the US and the UK, much of it driven by governments, it remains an unresolved issue in many European countries. It is unlikely that this situation will improve materially in 2009 so access to funding, even at historically unattractive margins, will be important for corporates seeking to grow businesses or make opportunistic acquisitions. It also underpins the importance of strong relationships with a core group of banks who the corporate can utilise as a source of advice as well as funding.
- Increased volatility in foreign exchange markets can be a source of increased risk in relation to existing hedging policies. The setting of budget rates become a much more precarious exercise, as does the risk that the ultimate outcome a year later is significantly better (or worse) than the budget rate, ie. it introduces a lot more uncertainty into the business model. It should also cause corporates to look at how they hedge, for example the opportunity cost of using FX forwards in an environment where rates subsequently move significantly in their favour. An alternative is to look at a range of option based solutions that protect their downside but give varying degrees of participation in the favourable rate move.
- In relation to interest rate markets, the recent turmoil has seen central banks move aggressively to cut rates and put inflation concerns on hold. These inflation concerns are likely to diminish greatly as the economic slowdown impacts on pricing levels in all sectors. Central bank rates have further to fall, albeit that the outstanding issues with LIBOR rates outlined above will take some time to resolve. Longer term fixed rates in the Euro-zone are about 1.50 per cent off their peaks and will likely fall

further into the first half of 2009. Corporates looking at attractive levels to fix longer dated interest rate exposure should consider hedging opportunities that are likely to present themselves from Q2 2009 onwards.

- An area that has captured less attention in the recent turmoil, but remains a real source of risk to many corporates is that of commodity exposure. There are now many potential hedging solutions available across a wide range of commodity products and in an over the counter format that will suit the requirements of a corporate seeking to hedge. Commodity hedging has seen increased corporate activity in recent years, a trend that is likely to continue.

Market conditions will remain challenging well into 2009 and possibly into 2010. The restoration of confidence in the financial system will take time, but it will happen. This returning confidence will lead to a more liquid inter-bank market, falling LIBOR rates and stronger bank balance sheets. A healthy banking system is essential for the resumption of economic growth in all economies and the role of both governments and regulatory authorities will be critical in assisting with this process. Many of the challenges facing corporate treasurers and finance directors in the months ahead will be unusual in that they may not have been faced before, but they are not by any means insurmountable.

Libor Yield Spread Moving Average



Source: Barclays Capital

Ciaran Kane is Head of Treasury - Ireland at Barclays Capital.

Foreign exchange hedge - a November case study by BOA

In this case study, based on rates and forecasts applying last month, Eric Ohayon of Bank of America highlights a tailored solution for a European corporation operating in EUR, and wishing to hedge against a dollar appreciation.

Background

Bank of America's FX team was approached by a Europe-based corporation whose functional currency is the euro (EUR) to investigate its FX exposures. Given the nature of the company's business, the client faced FX transaction exposures linked to a potential further appreciation of the USD.

The client's objective was to be hedged against a potential appreciation of the greenback over the next 12 months with the added flexibility of participating in a potential rebound in the EUR/USD spot exchange rate.

As reported in Bank of America's FX Strategy note of November 4th 2008, the bank's forecast for EUR/USD called for a potential move higher over the next three to six months above 1.4000 before retracing to trade on a 1.30 handle. The risk however remains to the downside given the potential aggressive monetary easing going into year end.

Recommended strategies

Given current market conditions, in particular in the elevated implied volatility noted in the option market, and the client's desire to participate in a potential 'limited' appreciation of the EUR, Bank of America proposed the following two strategies:

- ***Strategy 1 – Trigger reset***

Client is initially long a 1.2970 EUR Put / USD Call option for expiry 12 months. The strike of the option is set At-the-Money-Forward (ATMF).

In the event that spot ever trades at or above 1.5050, without 1.1900 having previously traded, the client's right to sell EUR/USD becomes an obligation (forward contract) at the same exchange rate of 1.2970.

In the event that spot ever trades at or below 1.1900, without 1.5050 having previously traded, the client's right to sell EUR/USD becomes an obligation (forward contract) at the rate of 1.2650.

Benefits

The client benefits from a potential Long EUR Put / USD Call option position for zero cost and can participate in a potential appreciation of the euro up to 1.5050. In the event that 1.5050 ever trades,

FOREX FOCUS

Key issues and strategies in Global FX Markets
Contact: Robert Sinche (646) 8555984; robert.sinche@bankofamerica.com

Currency Overview - 4th November 2008

USD More stable functioning of USB funding markets and improved risk appetite are reducing the temporary bid for the USD; a USB Index close below 84.90 today would complete a key-day reversal lower.

JPY We expect the BOJ's additional easing to be positive for liquidity and carry trades, but narrower foreign-domestic interest rate differentials will probably constrain the downside for the JPY.

EUR While the ECB will likely cut the repo rate by 50bps this week, EUR/USD remains well below levels justified by expected interest rate differentials and the cut is unlikely to impede a solid EUR/USB recovery.

GBP Aggressive monetary easing from the BoE on Thursday and a dovish statement will likely weigh on the GBP. New EUR/GBP record highs in the weeks ahead remain possible.

CURRENCY FORECASTS

EUR/USD:	1.30	1.38	1.44	1.40	1.34
Expiry:	100	101	105	108	110
Notional:	1.60	1.65	1.73	1.67	1.61

the client will be short EUR/USD forward at a rate that matches the Outright Forward at inception of the trade. Only in the event that spot EUR/USD moves straight through the 1.1900 Reset Trigger will the client be required to sell EUR/USD at the reset strike of 1.2650. At this point, spot will be trading below 1.1900 and the client will benefit from a 'deep in the money' position despite the reset penalty of 320 USD pips.

- ***Strategy 2 – Fade-in forward extra***

Client is long a 1.2970 (ATMF) EUR Put / USD Call option for expiry 12 months. The notional of the Long EUR Put option accrues to the pro-rata number of weeks spot fixes above 1.1800 over the 52-week life of the trade.

Client is short a 1.2970 (ATMF) EUR Call / USD Put option for expiry 12 months. The notional of the Short EUR Call option accrues to the pro-rata number of weeks spot fixes above 1.2970 over the 52-week life of the trade. However, the accrual process, for the sold option, can only start once spot EUR/USD has traded at or above the 1.5200 Trigger Level.

Benefits

As long as 1.5200 has not traded, for every week that spot EUR/USD fixes above 1.1800, the client accumulates €1 million of a Long EUR Put option for expiry one year from the trade inception date.

In the event that 1.5200 has traded, from that moment onward, for every weekly fixing above 1.2970, the client accrues into a short EUR/USD forward position at the rate of 1.2970 in €1 million per week for delivery one year from the trade inception date. However, for every fixing between 1.1800 and 1.2970, the client will continue to accrue the notional of the long option position only.

Overall, the fader type structures are relatively flexible and allow for an easier management of the position over time. The 'digital' risk associated with barriers in general is greatly reduced in that it has been smoothed out over the life of the trade.

Assessment

Both solutions offer the client full protection below the current forward rate but allow the client to participate in any short dated moves higher in EUR/USD as long as those moves are not extreme. In this case 'extreme' moves would require the EUR/USD to trade above 1.5050 and 1.5200. Given Bank of America's view for the EUR/USD in the coming year this represents a potentially highly profitable solution for the client if managed correctly.

In vogue – yield enhancement strategies

Given the relatively low interest rate environment, we have seen a surge in yield enhancement strategies linked to FX. Those are typically structured as deposits linked to an underlying FX transaction. The following FX Linked deposit is especially suited for investors that hold cash reserves in multiple currencies, in this case, euro and USD.

Cancellable dual currency deposit

The investor deposits €10 million for a one month tenor and benefits from an enhanced 6 per cent coupon.

At expiry, Bank of America has the right to repay the proceeds (Interest + Principal) of the deposit in either euro or USD. In the event that the redemption takes place in USD, a conversion rate of 1.4000 USD per EUR will be utilised. In the event that spot EUR/USD ever trades at or below the 1.2700 lock-in level, the bank's right to convert the proceeds into USD will be cancelled.

The client will be assured a euro redemption for the full notional and enhanced coupon.

Eric Ohayon works in FX Structuring at Bank of America.

INDICATIVE TERMS & CONDITIONS - Strategy One

Initial Client Position:	Long a EUR Put / USD Call
Expiry:	12 Months
Notional:	€10,000,000
Initial Strike:	1.2970 USD per EUR
Conditional Position:	Short EUR/USD Forward at 1.2970
Conditional Event:	Spot trades at or above 1.5050 prior to 1.1900 having traded
Reset Position:	Short EUR/USD Forward at 1.2650
Reset Event:	Spot trades at or below 1.1900 prior to 1.5050 having traded
Upfront Premium:	Zero Cost Strategy
Spot Ref.:	1.3100 USD per EUR
12m Fwd Ref.:	1.2970 USD per EUR

INDICATIVE TERMS & CONDITIONS - Strategy Two

Client Position:	Long a EUR Put / USD Call and Short a EUR Call / USD Put
Expiry:	52 Weeks
Strike:	1.2970 (ATMF)
Notional Amounts:	€1,000,000 * n for the Long EUR Put option position. n is the number of weeks spot fixes above 1.1800. €1,000,000 * m for the Short EUR call option position. m is the number of weeks spot fixes above 1.2970. The accrual process 'm' can only start if spot EUR/USD trades at or above 1.5200.
Observation Period:	Weekly (52 Fixings)
Upfront Premium:	Zero Cost Strategy
Spot Ref.:	1.3100 USD per EUR
12m Fwd Ref.:	1.2970 USD per EUR

INDICATIVE TERMS & CONDITIONS - Cancellable dual currency deposit

Deposit Taker:	Bank of America, NA
Tenor:	1 month – 30 days
Notional:	EUR 10,000,000
Coupon:	6.00% p.a. (Act/360)
Conversion Rate:	1.4000 USD per EUR
Lock-In Trigger:	1.2700
Lock-In Event:	If spot EUR/USD ever trades below the 1.2700 Lock-In Trigger, the Deposit redemption notional will be Locked-In Euro
Redemption:	EUR 10,050,000 or USD 14,070,000 at BoA discretion
Spot Ref.:	1.3100 USD per EUR
1m Depo Ref.:	3.30% p.a.

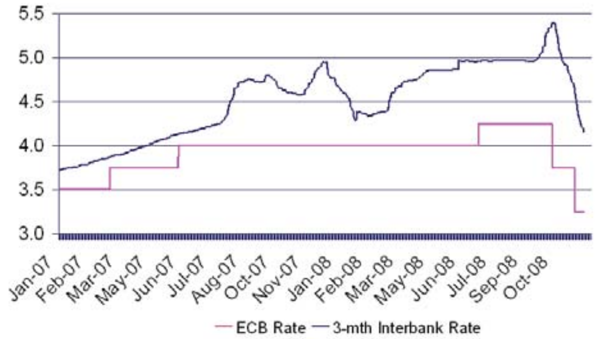
Different approaches to fx exposure, as one size won't fit all

Des Leavy of Ulster Bank sets out an approach to debt hedging strategies, and a forex exchange hedging strategy as the credit crisis continues to unfold.

At the time of writing this in mid November, economic news flows continue to deteriorate, we've had confirmation that the eurozone formally entered a recession at around the same time the ECB decided to hike rates by 25bps (nice one, guys). With inflation risks easing in all major economies and the remarkably soft IG Metall wage deal of 2.80 per cent increase excluding bonus, there is nothing blocking the ECB cutting rates in December. While a 50bps cut is the most likely outcome, we can't rule out more if the ECB feel they have lost the initiative particularly as other central banks take a more aggressive stance in cutting rates.

For borrowers, ECB rates are only part of the story, the dislocation between interbank rates and higher lending margins mean funding costs remain high and in many cases availability of funding is more of an issue than pricing. The graph on this page shows the absolute values of 3 month Euribor versus the ECB rate. Until markets return to more normal operation, this differential will continue to exist and will remain volatile.

3-Month Interbank Rates vs. ECB Rates



Source: Ulster Bank

Targeting the curve for value

We're living through some of the most volatile times for capital markets in a long time. Many commentators are drawing parallels with the 1930s market crash and the resultant depression. I'm not sure where the correct comparison lies, I'm not sure it really matters, but we do need to recognise we are in a very different place than most of us have ever experienced and our behaviour needs to change to take account of this.

Protecting cash flows is more important now than ever, so is value, particularly as costs come under increasing scrutiny. In deciding an appropriate debt hedging strategy it's still prudent to have some level of cover. We think the best value is the short end of the curve, currently you can lock in the cost of funding for two years at around 3.25 per cent or for three years at around 3.40 per cent. Not bad when you consider three month EURIBOR is setting at 4.15 per cent at the time of writing. My personal pick would be the two year rate – for a couple of reasons;

- Firstly – assuming interest is paid quarterly, then two years equals eight quarters. For Q1 the setting rate is currently 4.15 per cent. If you assume that this rate will be 50 bps lower for Q2 at 3.65 per cent, then for the remaining six quarters the floating rate will have to average 2.90 per cent before the fixed rate results in a worse outcome than if you remained floating. This seems like reasonable value. Furthermore, if you feel that the three month Euribor Vs ECB rate spread is unlikely to narrow much over the same term, then the swap is pricing ECB rates to average somewhere close to 2pct for the last three quarters.
- Secondly - there is good potential for the curve beyond two years to fall further as the market catches up with reality, by being locked in for only two years you will be able to take advantage by either tagging on additional cover at attractive levels or re-engineering any existing hedges.

We feel longer-term rates have potential to ease further. Eurozone CPI has peaked and will ease from here, the eurozone has entered recession, consumer spending is faltering, the financial system is showing only limited signs of recovering. The ECB has finally woken up and begun to cut rates. Swap markets are still pricing rates to begin rising within two years but this looks overly optimistic and before we call for rates to begin rising, we should first establish where the floor is and how long the recession will last.

For these reasons alone, five year and seven year rates still look expensive. Longer term rates probably also have room to move lower but with significant sovereign debt issues due this may limit potential. We have already seen a sharp correction – five year swaps since the beginning of 2005 ground higher over a three year period only to give back a large part of the gains over a couple of months. I don't think this correction is over and I feel by the end of the year we may be looking at five year rates much closer to 3.00 per cent. That would be my target and if we see five years at or close to 3.00 per cent, at this stage I'd be happy starting to lock away good portions of debt. Market history is littered with long trends that end up in violent correction. EUR/USD is back where it was 25 months ago having taken just three months to undo almost two years worth of rally. Oil took 18 months to go from \$55 to \$145 and just four months to go all the way back to \$55. I don't see why the five year swap can't end back at 3.00 per cent.

Longer term rates have to factor supply of government debt due to come to the market as governments seek to fund their growing deficits and cost of propping up ailing financial systems. In addition, there is growing pent up demand from corporate customers to secure long term funding and any easing in bond / swap spreads will most likely see issuance of corporate bonds. Steep yield curves look set to be a feature for the coming year. The graph on p42 shows how the EUR swap 2s, 10s spread has widened since July 2008.

In conclusion, two and three year swaps look to offer value, five to seven years have room to move lower as the market catches up with the reality of how long this recession will last. Continue to hedge but look for value in the short end and target levels further out. Beyond seven years, markets are focused on sovereign debt funding which will have to offer attractive yields to ensure successful funding.

Foreign exchange

With so much doom and gloom around, I thought I'd look at a simple trade idea that looks really attractive at the moment. This idea is for people buying EUR and selling USD. We have already seen huge favourable movements but these look to have stalled for the moment anyway. This idea is best suited to a smaller percentage of their overall exposure and ideally should be used in conjunction with other hedging strategies to give a blended risk profile. This idea is based off a current EURUSD exchange rate of 1.2500

Target Switchable Forward

- Maximum tenor is 12 months
- Fixing frequency is monthly
- For the first six months
  - Each month you buy €1 million per months at 1.2000
  - There is a cap of 20 cents on the maximum gain you can make – ie. each month that EURUSD sets above 1.2000 – you buy €1 million at 1.2000 provided the cumulative gain is less than 20 cents (if spot sets above 1.2000 and the difference between the spot rate and 1.2000 is greater than the number of cents out performance remaining – you still buy €1 million at 1.2000 for that month – but the trade then ceases to exist)
  - On the 6th monthly expiry date above, if the 20 cent cap has not been breached then you will be switched into the following trade
- For the second six months (50 per cent participating forward)
  - Six additional expiry dates
  - On each expiry date if spot sets at or above 1.2500 – you buy €2 million at 1.2500
  - On each expiry if spot sets below 1.2500 – you buy €1 million at 1.2500

This gives you outperformance (up to 20 cents maximum) for the initial six months, or for as long as it lasts. If the trade still has some outperformance left at the end of six months, then this switches you into a participating forward at very attractive rates, thereby removing uncertainty after the six month term.

Many different approaches can be used to hedge foreign exchange exposures and we don't think that one size should fit all.

'Financial crises tend to create jumps in the correlation and volatility of financial instruments. For an investment portfolio this often means a jump in the volatility of returns and a resultant fall in risk adjusted performance'.

Below is an example of the types of ideas Ulster Bank, CRS Ireland has access to and can deliver to institutional customers.

Automated FX trading models as a diversified source of alpha

Financial crises tend to create jumps in the correlation and volatility of financial instruments. For an investment portfolio, this often means a jump in the volatility of returns and a resultant fall in risk adjusted performance. Avoiding this impact is a challenge to all investors, particularly in recent months, but the usual rules of seeking assets with low volatility and low correlation to other assets in a portfolio still apply.

Market events over the last year and a half have brought such issues to the fore and hence the foreign exchange markets, with their high liquidity and naturally low correlation to equity, credit and bond markets, are getting more attention as a source of alpha.

Fixed allocation carry baskets, essentially passive strategies, have proved both popular and effective in recent years as the carry trade performed exceptionally well, but in the current environment the efficacy of the trade is being seriously questioned. An actively managed FX allocation provides a potential solution, but one that may be expensive and is not acceptable or available to all investors. Automated FX trading models which allocate trades based on a pre-determined algorithm are an alternative solution, which, due to their independent nature, may be distributed via a variety of products and as a result are highly accessible to many types of investor.

The recently launched RBS FX RADAR index is based on a model developed by the RBS Quant Solutions team over the last four years. Most available re-balancing models simply go long/short the highest/lowest yielding of a selection of currencies, essentially an adaptive carry trade. The strategy seeks to exploit differentials between implied yields in the FX forwards market and yields that should be expected given the risks in the currency, as calculated from a set of coefficients applied to three market observed risk factors: credit risk, market risk and liquidity risk. The size of position taken in a given currency pair is limited by a combination of currency specific liquidity ratings and an expected volatility cap on the entire position. The model re-weights monthly, and inter-month includes a function to close out the most loss making trade if the overall position breaches a peak-to-trough loss level. This underlying model is then combined with a deposit rate return to give the RBS FX RADAR total return index.

Backtested over the last eight years, the index has returned an average of 9.63 per cent p.a. yield with a volatility of 6.39 per cent. The recent extreme volatility caused the largest drawdown, but with a year-to-date return of -3 per cent and performance since January 2007 of 14.7 per cent, the index has coped well relative to other peers and asset classes during this credit crisis.

With respect to the issue of correlation jumps and the benefits of the RBS FX RADAR note to a portfolio, an excellent stress test to the diversification of a given portfolio is of course a back test on last summer's breaking credit crisis and the subsequent after shocks. The chart below shows the performance of a portfolio consisting solely of the MSCI World index, a BRIC carry basket or the RBS FX RADAR Index. The plots of performance speak for themselves, with the RADAR model taking itself out of correlated positions and increasingly outperforming both the equity and FX carry indices as the crisis unfolds. The orange line pertaining to the right hand axis demonstrates the correlation impact vividly, as 1-year rolling correlation versus MSCI actually falls from 30 per cent to around 15 per cent during summer 2008.

The FX RADAR index is available in a variety of forms from a standard delta one product simply investing the index to capital guaranteed notes giving principal protection with leveraged access to the excess return of the index. FX RADAR, as well as other RBS indices, can be monitored on Bloomberg using RIND <GO> or on the RBS Marketplace website www.rbsm.com/indices.

Though not a central area of focus or expertise for many investment managers, the potential for high quality, low correlation returns in the medium-term through FX instruments, makes a strong case for exploring this relatively under utilised investment asset class.

EUR swap 2s, 10s spread

Source: Ulster Bank

Des Leavy is head of IRD and FX Structuring at Ulster Bank Corporate Risk Solutions. (This is an updated version of an article that was originally published in FX Week in June.)

Has an effective UCITS management company passport finally arrived?

Brian Higgins looks at details of the soon- to-arrive UCITS management company passport.

Background

The Management Company Passport (MCP) was first introduced in Directive 2001/107/EC (the Man Co Directive). However, the MCP has failed to work to date. This failure is largely due to a lack of clarity in the wording of certain sections of the Man Co Directive. In particular, it appears to prevent remote management (i.e. management from an EU member state other than the one in which the UCITS is domiciled) of UCITS constituted as contractual funds such as common contractual funds or unit trusts (contractual funds).

Furthermore, the extent to which the passport applies to Man Cos of UCITS investment companies has not been free from doubt. In January 2005, the Committee of European Securities Regulators issued Level 2 guidelines which provided clarification on the MCP procedures contained in the Man Co Directive. These guidelines indicated that the Directive does not provide for a Man Co to manage a UCITS from another EU member state (Member State). Accordingly, despite the provision for an MCP Directive it has not yet worked in practice.

Later in 2005, the EU Commission (the Commission) issued a consultation paper on enhancing the framework for UCITS. This was followed in 2006 with a more detailed consultation paper which announced a set of target modifications to the UCITS Directive. The areas which the Commission recommended be considered for modification were, (i) a new simplified fund passport procedure (ii) mergers of UCITS funds on a crossborder basis (iii) UCITS master/feeder structures, (iv) key investor information (to replace the simplified prospectus) (v) measures to enhance cooperation between competent authorities and (vi) the MCP.

Following a lengthy consultation period, the Commission issued its proposals for amending the UCITS Directive on 16 July 2008. The proposals provide for the modification referred to at (i) – (v) above, but do not contain provision for a new, effective MCP. These proposals are commonly referred to as UCITS IV.

The MCP was not included in the current UCITS IV proposals because, during the consultation process, concerns were raised as to how clear allocation of responsibilities for supervision between the competent authority of the Man Co and the competent authority of the UCITS could be ensured. If this could not be ensured, it could be detrimental to investor protection and the international reputation of the UCITS brand.

In an effort to address this supervisory concern, the Commission had proposed a ‘partial passport’ pursuant to which certain core administrative functions namely, (i) verification of valuation and pricing and (ii) maintenance of unit-holder/shareholder registers, would have to be carried out in the UCITS’ home Member State. However, the Commission recognised that its partial passport procedure had not provided a fully satisfactory solution. Consequently, it did not include provision for an updated MCP in its UCITS IV proposal. Instead, it requested CESR to provide advice which would help the Commission ‘to develop provisions permitting the introduction of a management company passport under conditions which are consistent with a high level of investor protection’.

Following the referral to CESR by the Commission, CESR issued a call for evidence on 17 July, 2008 (responses were received from a variety of sources including asset managers, fund administrators, law firms and industry bodies). A consultation paper containing draft advice was issued in September, 2008 and an open hearing was held on 13 October, 2008. On 31 October 2008, CESR issued its advice to the Commission on the introduction of an effective MCP (CESR Advice).

Key elements of CESR Advice
Definition of domicile

Man Co
- The Man Co's home Member State should be the Member State in which the Man Co's registered office or head office is situated.
- Authorisation of the business of Man Cos should be granted by the Man Co's competent authority. The CESR Advice sets out those conditions which must be satisfied in order for such authorisation to be granted. One of the pre-conditions for authorisation is that the Man Co must manage at least one UCITS in its home member state.
- The authorisation of the Man Co should allowit to provide services throughout the EU, either through the establishment of a branch or under the free provision of services.

UCITS
- The UCITS' home Member State for contractual funds should be the Member State in which the UCITS has received authorisation and in which the depositary of the UCITS is established.
- UCITS should be regulated in accordance with the law applicable in its home Member State and UCITS should be authorised only if the UCITS' competent authority has approved the choice of the Man Co, the fund rules and the choice of depositary.

Depositary (also known as the custodian or trustee)
- UCITS should be authorised only if the UCITS' competent authority has approved the choice of depositary, which depositary should either have its registered office in or be established in the UCITS' home Member State.
- In order to regulate the flow of information deemed necessary to allow the depositary to perform its oversight and safe-keeping functions, the depositary and the Man Co should sign a written agreement.

'In general, member states and industry participants agree with the principle of taking further steps towards EU single market integration and achieving increased efficiencies, provided the integrity of the UCITS brand can be maintained.'

Local point of contact in case of contractual funds
- If the Man Co of a contractual fund is not established in the UCITS' home Member State, it should appoint the depositary or other financial institution to act as a local point of contact to perform certain functions, to include providing facilities for the receipt and transmission of orders and acting as a local information agent.

Applicable law and allocation of responsibilities in the case of free provision of services

In the case of the free provision of services from another Member State, the key provisions of the CESR Advice are as follows:
- Any Man Co authorised and supervised by the competent authority of another Member State providing the activity of cross border collective portfolio management through the freedom to provide services should not be subject to any additional requirements in the UCITS' home Member State except in cases referred to in the UCITS Directive.
- The Member State where the UCITS is domiciled shall regulate the constitution and functioning of the UCITS including, the rules on investment policies and restrictions, valuation of assets, relationships with investors and marketing/distribution of the units/shares.
- The Man Co should comply with the organisational measures (including risk management process and conflict of interest procedures) provided by its home Member State. However, the UCITS' competent authority should be satisfied that the Man Co's risk management process and conflict of interests policies are adequate for the UCITS which it proposes to manage. CESR further advises that the Commission should provide Level 2 guidelines on Man Co organisational measures, including risk management processes and conflict of interest procedures to ensure that these areas are harmonised in order to provide confidence between Member States and reduce the level of potential comments from the competent authority of the UCITS' home Member State.

In the case of a branch, in addition to the above, the competent authority of the Member State in which the branch is located should assume responsibility for ensuring that the services provided by the branch within its territory comply with the rules of conduct applicable in such host Member State.

CESR further provides that for the purpose of ensuring adequate supervision of the UCITS, the depositary and the Man Co, the competent authorities should have the power to conclude bi-lateral and/or multi-lateral co-operation agreements with each other. It further recommends that the Commission should provide Level 2 guidelines on the minimum standards for such co-operation agreements.

Authorisation procedure for UCITS funds whose Man Co is established in another Member State:
- The competent authority of the UCITS' home Member State may authorise a UCITS only if it has approved the fund rules, the choice of the Man Co and the choice of the depositary. The CESR Advice sets out the circumstances in which the competent authority of the UCITS' home Member State should approve the choice of the Man Co (i.e. if the Man Co is duly authorised by its home Member State, its risk management process, conflict of interest procedures and proposed delegation arrangements are adequate and the choice does not impact the exercise of its supervisory functions).
- The CESR Advice lists the specific documents which must be provided to

the UCITS' competent authority by a Man Co which applies for authorisation to set up and/or manage UCITS established in another Member State and the circumstances in which additional information may be required. These documents include (i) a report on risk management, accounting and other internal procedures (ii) a description of the relationship between the Man Co and the UCITS' depositary (iii) information on any delegation arrangements (iv) information on dealing with conflicts of interest (v) details of the local point of contact and (vi) details of how the Man Co will ensure compliance with the requirements of the competent authority of the UCITS.
- The Man Co's home Member State should provide an Attestation to the competent authority of the UCITS certifying that the Man Co fulfils the conditions imposed by the UCITS Directive and that organisational arrangements, systems and controls in place in the Man Co's home Member State are adequate for the type of UCITS which it intends to manage.
- In the event that a Man Co has seriously and/or systematically infringed the provisions adopted pursuant to the UCITS Directive, the UCITS' competent authority should have the power to refuse or withdraw the approval of the choice of Man Co.

CESR further recommends that the Commission should establish implementing rules designed to detail the procedure for (i) the authorisation of the UCITS, (ii) the approval of the choice of a Man Co authorised in another Member State by the UCITS' competent authority and (iii) to deal with cases in which disagreements occur between competent authorities, including determining whether mediation may be necessary.

On-going supervision of the management of the Fund

- The competent authority of the Man Co should receive the reports on the management activity performed through branches or through freedom to provide services as required by the legislation of the Member State.
- The UCITS' competent authority should receive the reports which the UCITS must provide under the law applicable to it. The competent authority of the Man Co must also have access to these reports.
- The Commission should provide Level 2 guidelines on setting up databases which will enable competent authorities to share information which could reduce the reporting burden on the UCITS and the Man Co.
- The competent authority of the UCITS should be able to request the co-operation of the Man Co's competent authority for on site verifications or investigations of the Man Co to the extent that it is necessary with respect to the supervision of the UCITS.
- The Man Co's competent authority should be able to request the co-operation of the competent authority of the UCITS and its depositary for on site verifications or investigations of the depositary to the extent it is necessary with respect to the supervision of UCITS.
- In the event that the UCITS and the Man Co have different auditors, their respective auditors should enter into an information-sharing agreement in order to ensure the fulfilment of the duties of both auditors. The Commission should provide Level 2 guidelines on the minimum content which should be included in such agreements.

Breaches of rules governing the management of the Fund

The UCITS' competent authority should be able to directly impose administrative sanctions and measures on any Man Co providing services either through the freedom to provide services or a branch for violation of the rules which fall within its remit provided such sanctions are effective, proportionate and dissuasive.
- If such sanctions are to be imposed upon Man Cos located in other Member States, the UCITS' competent authority should inform the Man Co's competent authority. The Man Co's competent authority may make representation to the UCITS' competent authority in relation to the type of measure and level of the sanctions.
- The Man Co's competent authority should have the power to serve the legal documents which are necessary to enforce the sanctions or measures taken by the UCITS' competent authority against the Man Co.
- As a last resort, if the conditions under which the choice of Man Co was approved are no longer fulfilled and the interests of unit-holders/shareholders are prejudiced the UCITS' competent authority may withdraw the approval of the choice of Man Co.
- Claims against a UCITS and the Man Co in relation to the management of a UCITS should be lodged by investors in a court in the UCITS' home Member State in accordance with the law applicable to the UCITS.
- Member States should promote the setting up or development of efficient out-of-court complaints and redress procedures for the settlement of investor disputes concerning the management of UCITS.

Analysis of the CESR Advice

In general, Member States and industry participants agree with the principle of taking further steps towards EU single market integration and achieving increased efficiencies, provided the integrity of the UCITS brand can be maintained. However, there still appears to be questions over how this can be best achieved.

The CESR Advice itself was not supported by five Member States (Ireland, Luxembourg, Poland, the Slovak Republic and Slovenia) as they remained concerned that the proposed supervisory framework would be difficult to operate effectively in practice. Indeed, a number of other Member States approved the general principles of the CESR Advice but expressed reservation about certain aspects of it including the complexity of the proposed MCP framework. CESR itself has recommended that Level 2 guidelines are necessary in order to allow the smooth introduction of the MCP framework.

The domicile of a UCITS is an important question not just from a legal perspective (which is considered in the CESR Advice as outlined above), but also from a tax perspective. A clarifying amendment to the definition of domicile in the UCITS Directive would not necessarily be sufficient to satisfy tax authorities in various jurisdictions that their criteria for domicile are satisfied.

As is evident from the above, the CESR Advice has not been unanimously supported and will require substantial level 2 guidelines to enable it to work. We therefore await the Commission's response to the CESR Advice to see if it deems it viable or if more work will be required to achieve a workable MCP.

Brian Higgins is a partner in the Financial Services Department at Dillon Eustace.

Irish property - back to basics

Frank O'Neill considers how investors shall assess property investment in a changed investment climate and the impact of the new market realities on the relationship between landlords and tenants.

The Irish commercial property world has changed fundamentally. Whilst change was not totally unexpected, the extent and rapidity of the recent events has left market observers shell-shocked. The commonly held perception that property values only increase has been exposed as a fallacy. The performance of Irish commercial property in recent years has defied basic rational analysis. This period is over and unlikely to return, it's back to basics.

Property values have fallen dramatically. The three fundamental reasons for this fall are:

- Firstly, the yield compression which the Irish property market experienced over the last number of years and which drove values up has been reversed. (I commented in some detail on the dramatic impact on values of yield compression and its reversal in the October 2008 issue of FINANCE).
- Secondly, occupational demand has faltered putting market rental levels under severe downward pressure, and
- Thirdly, the international financial crisis – 'the credit crunch' – has meant that finance is not available for purchasers.

The traditionally investor friendly model of Irish commercial property investment is changing rapidly. The once prevalent long FRI (full repairing and insuring) lease with upward only rent reviews, no breaks, limited rights of alienation (assignment and sub-letting) and backed up by the comfort of a blue chip tenant has become a rare bird and may be heading for extinction.

Market pressures have resulted in a serious imbalance arising between supply and demand for commercial property occupational space. Development projects which were based on decisions to commence which were taken in the very different market circumstances of 2006 and 2007 are now complete or nearing completion, bringing new space onto the market. The economic downturn has curbed expansion plans of occupiers and resulted in accommodation being brought back to the market as a result of business contraction and failure. In virtually all sectors supply has increased and demand has dramatically decreased.

'In virtually all sectors supply has increased and demand has dramatically decreased. This is now a tenant's market and landlords will have to come to terms with this new reality which may last for a considerable period of time.'

This is now a tenant's market and landlords will have to come to terms with this new reality which may last for a considerable period of time.

In the halcyon days of the Celtic Tiger with easily available banking finance, pent-up demand for a limited supply of investments in conjunction with a booming economy which offered investors a real prospect of rental growth, investors were satisfied with historically low yields on the premise that values would continue to increase due to the continuation of this positive paradigm. However, the assumptions implicit in these investments have proved to be invalid.

The average length of leases has fallen and will fall further as tenants insist on terms that give them the flexibility that the rapidly changing business environment necessitates. Five year or shorter leases shall become the norm. The ability to opt out of statutory rights of renewal shall remove the legal hazard to the value of the investment that shorter tenancies extended beyond 5 years would have caused in the past. The traditional landlord cushions of long break notice periods, penalties for exercising breaks and mercilessly enforced comprehensive repairing obligations will become the exception.

The traditional adversarial approach of landlords to landlord tenant relationships will change to one of building a positive relationship with the tenant to encourage them to stay in the property beyond the termination of their short lease. Landlords marketing and customer focus will need to change from its current front end emphasis (get the lease signed!) to the entirety of the tenant's term of occupation – this will need a major change in attitude and approach.

Landlords will have to take a proactive approach to improve the amenity of their properties to their tenants and keep the non-rent costs of occupation – service charges, insurance etc. - to a minimum consistent with the provision of a good quality service.

Funders will need to develop the ability to assess property without the traditional comforts of long FRI lease terms and blue-chip tenants. This will be a challenge. Irish property management and property funding will move relentlessly toward the US and European models. Income streams will be less certain and landlords will incur significant irrecoverable costs. Analysis of property investment opportunities shall become more focused on the property's ability to attract and maintain tenants and the quality of its management and less a matter of financial engineering. More judgement will be required. Funders will need to look beyond the building survey, the valuation report, the tenant's accounts and the solicitor's title and lease report – and the PII cover of their authors. These important diligence steps will need to be supplemented with an assessment of the relevant market - current and future occupational demand - and critically the competence of the investor's property management abilities/structures.

While this may be a shock to some traditional Irish and UK focused investors and their funders it should not be a problem to others as investors and funders from Europe and the US are well used to nine year leases with three or five year breaks.

The rational investor coming to the market will have a very different view of his or her return requirements than heretofore. Property investment will need to get back to basics. What are the basics? In essence the return (income) that a property should generate needs to provide sufficient income to provide for all of the following:

- **Financing -** the servicing and amortising of borrowings – the cost of borrowings will be more expensive than in the recent past and the funder will need to see how and when he is getting his money back.
- **Management -** the cost of ongoing management of the property and the ad hoc events that will arise as leases terminate, tenants exercise break clauses, and go out of business – in the changed tenant's market these events will be more frequent.
- **Irrecoverable Costs -** the increasing level of unrecoverable costs that will arise as tenants exercise their negotiating muscle and extract concessions from landlords forcing them to incur costs that previously would have been recovered under FRI type arrangements.
- **Void Periods -** the likely cost of the increased probability of void periods when the property or parts of a multi-let property are not let and are incurring costs rather than generating income,
- **Reletting Costs -** the likely cost of any monetary or rent-free incentives that may be needed to be given to a new tenant to acquire the property, or to an existing tenant to stay, along with the associated agency and legal fees.
- **Obsolescence** - the costs of refurbishment and replacement of the property asset as it ages – this is a key issue which I will return to below, and is to a large extent dependant on the nature of the specific asset invested in.
- **Return on Capital -** lastly and perhaps most importantly, after all of the above the property must also provide the investor with an after tax return on capital commensurate with the risks of the investment.

The issue of the replacement, refurbishment of obsolete property assets is significant. However across the spectrum of property sectors this varies greatly. At one extreme we have the standard shop (non shopping centre retail unit) in a prime location – i.e. unit in Grafton Street – with virtually no obsolescence. Over decades an investor will spend little or nothing as the tenant will invariably assume responsibility for both the fit-out out and upkeep of the property and it will relet quickly if empty. At the other extreme we have an industrial unit which after 20 years will be obsolete. If we consider a building with a 20 year life cycle, this would mean that the investor would need to provide for 5% of the replacement/refurbishment in each year to ensure that he has sufficient fund accumulated to finance the replacement/refurbishment at the end of the building's useful life. The alternative to replacement/refurbishment is the prospect of a much reduced rental income as a building moves down the property quality hierarchy from prime to secondary and lastly tertiary with negative consequences on its income producing ability.

'Investment in a single property that may become empty and absorb rather than generate cash is not an attractive prospect for a pensioner. Investors should in my view consider other vehicles for investment in property – property funds, US style REITs, or property companies.'

In the new world of Irish investment property a rational investor will need to take all of the above factors into account and demand a yield which is sufficient to ensure that all of the above needs are addressed. Higher yields mean lower values.

What are the other consequences?
The consequences in my view are that an investor who has rationally assessed the risks associated with property will need to ensure that in addition to an appropriate yield that his/her property portfolio is sufficiently diversified to protect him against the increased specific risks in a changed marketplace. Going forward in a world of greater risk, the model of an individual amateur (in the true sense of the word) investor acquiring one property as a pension will be inappropriate. Similarly the single property syndicate route may not be attractive. Investment in a single property that may become empty and absorb rather than generate cash is not an attractive prospect for a pensioner. Investors should in my view consider other vehicles for investment in property – property funds, US style REITs, or property companies. A super high net worth individual who can afford to invest in a range of property may be able to achieve sufficient diversity within his/her portfolio and engage professional management.

'Analysis of property investment opportunities shall become more focused on the property's ability to attract and maintain tenants and the quality of its management and less a matter of financial engineering.'

The rational property investor in the new world of commercial property will recognise the need to invest in a well diversified professionally managed portfolio. The profile of the investment property owning community shall change. Historically the ownership of commercial property was concentrated in the hands of institutions, property companies and a small number of very wealthy private investors. The fragmentation of commercial property ownership to much broader group of investors that occurred over the recent years was driven by the easy availability of finance based to large extent on the attractiveness of the traditional FRI arrangement to funders. For the reasons outlined above this model is under threat and consequently I believe that the profile of the property ownership shall gravitate back towards the historical model with fewer but larger and more sophisticated professionally managed investors.

The notion of a trophy property will fade – vanity shall be replaced by common sense. A property's attractiveness shall be determined by the adequacy of its expected return over the anticipated investment holding period. A prestige address or a cutting edge architectural design shall only be of relevance insofar that it is perceived to assist in the generation of income or reduction of costs. As I said at the outset it's back to basics.

Frank O'Neill is a director of W.K. Nowlan & Associates – a specialist property asset management consultancy practice.

Asset revaluation - challenges for property developers and others

The level of asset revaluations in the market has triggered serious issues for property investors, particularly where leveraging with third party financing is involved. Michael Quinn looks at the difficulties faced and some of the options open to property developers and secured lenders alike.

The business pages are replete with stories of negative equity, to an extent that has not been seen for over a generation in this State. For many years the appetite of mortgage lenders for repossession and other enforcement action has been very limited, although the climate is definitely changing and every week there are new reports from the Courts of increased activity in repossession proceedings. Initially this activity only arose from lenders of last resort, or those whose criteria for lending was less stringent. Now the lists feature repossession actions by virtually all Irish lenders, faced with their own pressures on their loan books. The level of asset revaluations in the market has triggered serious issues for property investors, particularly where leveraging with third party financing is involved.

Revaluations

On the commercial property side, lenders and all stakeholders are being forced to update valuations. Not surprisingly, the results have confirmed what all suspected, that the freefall in property valuations continues. Undoubtedly the credit crunch is causing a certain degree of artificiality in that there is so little movement in the property market that valuations are themselves not based on current activity, but each valuer's view of the trends. Whether this illustrates that values were inflated in the first place, or that they are moving to more realistic levels, is an interesting debate. What is clear is that where the properties are held by companies, whether they are exclusively property development companies or whether the property is merely a core asset retained on their books, the directors are faced with tough decisions arising from the impact of a very different balance sheet.

In many cases the property will have been acquired with the benefit of bank funding secured by a legal mortgage over the property. In those cases, in recent years, where a borrower has encountered difficulty in servicing the loan, lenders have been relatively low-key about enforcement, knowing that the property had a value which would ultimately yield a full return on sale, both for the principal amount of the loan and for any interest arrears. This has all changed. Even where the original loan to value ratio was comfortable for lenders, falling values have eliminated that comfort and now the lender and the borrower are faced with tough decisions.

'in recent years, where a borrower has encountered difficulty in servicing the loan, lenders have been relatively low-key about enforcement, knowing that the property had a value which would ultimately yield a full return on sale, both for the principal amount of the loan and for any interest arrears. This has all changed. Even where the original loan to value ratio was comfortable for lenders, falling values have eliminated that comfort and now the lender and the borrower are faced with tough decisions.'

In most cases the obvious direct remedy for the lender will be to enforce its legal charge, possibly even by appointing a receiver. Up to now this has not been happening because of the comfort zone of equity based on original values which were assumed only to rise. In very recent times the option of a forced sale was unattractive because of the total standstill and an absence of purchasers in the market even for distressed sales. But as the loan books of all banks came under closer scrutiny, this is starting to change again and, in many cases, they are forced to declare the default and invoke their legal remedies, including receivership.

Directors duties

From the perspective of the directors of companies facing these new realities, they owe duties not just to the company and its shareholders but to all stakeholders, including third party creditors. The directors in those cases have a duty to act in the best interests of the creditors of the company as a whole, and this means ensuring that they do not allow themselves to have regard only to the interests of one creditor.

In cases where revaluation of the assets brings the balance sheet into deficit, the immediate issue for directors is to establish whether it is possible to achieve a restructuring. Where the company has other trading activities, this will include an assessment of whether the trading prospects are sufficiently strong that the balance sheet can be restructured over time and with the agreement with all interested parties. In cases were the revaluation is so radical that there is no prospect of trading through the difficulties, it will be necessary to open restructuring negotiations with all stakeholders.

Restructuring

It can be possible to agree a formal scheme of arrangement outside of Court processes. However, such arrangements are fraught with difficulties principally because any dissenting creditor, including for example the Revenue Commissioners, can still pursue enforcement proceedings for the entire amount of its debt and of course secured lenders can at any time invoke their own direct remedies in relation to secured assets.

In certain cases an application to the High Court for Court protection and the appointment of an examiner will be merited. Such a process should only be followed in cases where the borrowing company has a going concern business which is capable of surviving in the long term if restructured through examinership. It also needs to be remembered that examinership is costly, and that a scheme of arrangement cannot be used to disregard the priority and rights of the holders of security.

In cases where the borrowing company's only asset is a property which is the subject of a fixed charge such as a legal mortgage, discussions between the company and the lender will be relatively simple because the charged asset is essentially the property of the bank. The remedy of receivership is available to the secured lender in default cases, but there may be good reasons for the borrower and the lender to collaborate on a workout rather than a forced sale of assets through receivership particularly in a 'frozen' property market where buyers are rare.

Examinership

In cases where the bank holds not only a fixed charge over defined assets, but also a debenture over all the other assets and business of the company, discussions may be more complex. In those cases the directors should take advice as to whether examinership would provide a solution, at the very least to allow the breathing space in terms of time for a solution to formulated and agreed with the interested stakeholders. As a general rule examinership is unattractive to secured lenders, as it deprives them of the control which they would usually be in a position to exert through enforcement of their own security. However, there have been exceptional cases where a secured lender will support an examinership if the workout proposals are realistic and can generate a better return for all concerned in the long term. Examinership has been used successfully in a number of cases of property development companies and construction companies. However, it is inadvisable to enter into an examinership without the company having available to it the funds to operate during the course of the examinership, and have identified an investor willing to provide the funds to support the restructuring. It also should be remembered that the examinership cannot be used to disregard the bank's security and the support of major creditors is a key ingredient of most successful examinerships.

The fact that a revaluation gives rise to a deficit on the company's balance sheet does not of itself mean that the company should be immediately put into a formal insolvency process such as liquidation, receivership or examinership. However, there is a heavy onus on the directors to immediately establish whether a workout can be formulated and agreed with all of the stakeholders on a timely basis, failing which they may have no alternative but to initiate liquidation or, in certain cases, examinership proceedings.

The effects of revaluation of property assets are already appearing in that secured lenders are finding they have no alternative but to take enforcement steps, rather than awaiting an improvement in the market. The Financial Regulator's examination of the loan books of Irish banks is clearly a factor in this process. As always, a critical factor is identifying where we are in the cycle. The broad assumption at this time is that property values have not yet hit their lowest point, and this heightens the dilemma for property developers and secured lenders alike.

Michael Quinn is a partner at William Fry.

M&A: the kind of market it is going to be in 2009

David Baxter looks at who the shape of the coming market in mergers and acquisitions in 2009, and examines the areas of opportunity for both buyers and vendors.

Deal valuations in the M&A market have continued to drop - according to the NCB Corporate Finance M&A Tracker, survey valuations in the third quarter of 2008 were down 77 per cent on the same period last year. However, activity levels, as measured by the volume of deals, have remained resilient throughout 2008. This supports the view that those businesses that can adapt to a different market and approach the financing of transactions with flexibility should be able to capitalise on acquisition opportunities offering real value.

Optimising opportunities

In challenging economic conditions, there is a tendency for companies to retreat to core product lines and businesses that they know best and trust will deliver certain revenue. As a result, profitable non-core assets/businesses will offer up good opportunities, particularly for trade players.

Companies with strong balance sheets or existing credit lines are well placed in this environment. Trade players, who perhaps in recent years were marginalised by the success of private equity houses, should be able to take advantage of acquisitions opportunities at discounted prices. The highly leveraged private equity model is likely to be less ubiquitous in the current economic climate.

Know your vendor

In addition to the market seeing non-core assets being off-loaded, equally there will be a higher level of distressed sales of both companies and assets. Some of these sales will occur via insolvency processes. It is important for potential purchasers to know the rules when buying out of such processes e.g. don't expect to get reps & warranties from receivers & liquidators.

The dynamic at play for purchasers is different to a normal M&A transaction. For example, in examinerships (Ireland's formal corporate recovery process), while existing asset value, revenue projections, etc. feed into pricing, there are 2 key components that will impact on the amount an investor has to inject into the ailing company. Firstly, the level of cash required to fund payments to crammed-down creditors. Secondly, the cash injection into the business required to satisfy the examiner that the company has sufficient working capital to trade on successfully.

In these acquisitions, time is often of the essence. Purchasers need to move quickly and assess risk on an informed basis early on. To that extent, those purchasers looking to acquire assets or companies which they know well and where due diligence can be carried out promptly, will have an advantage.

Assessing financing alternatives
With fresh credit harder to arrange, many purchasers will need to explore non-traditional methods to finance deals. Deferred earn-outs and other performance-based payment mechanisms should be considered. While the leasing market is also under pressure, sale and leaseback opportunities should be explored. Rights issues (for public companies) in the current volatile market should be avoided.

'Companies with strong balance sheets or existing credit lines are well placed in this environment.
Trade players, who perhaps in recent years were marginalised by the success of private equity houses, should be able to take advantage of acquisitions opportunities at discounted prices.'

Expect to see an uplift in the use of auctions - this sale method allows vendors to reduce negotiation levels and assess the execution risk of the potential purchasers. Where the regulatory complexity of the purchaser may previously have been considered the most challenging execution risk factor, such purchasers may be able to offset that risk if their financing is in place.

Outsourcing – back in vogue
In an environment where cost management is paramount, outsourcing is likely to be used by businesses seeking cost efficiencies. Key to ensuring that this process works for a business is ensuring that the governing contract is strong, flexible and clearly identifies and addresses the management and legal issues that arise

'In challenging economic conditions, there is a tendency for companies to retreat to core product lines and businesses that they know best and trust will deliver certain revenue. As a result, profitable non-core assets/businesses will offer up good opportunities, particularly for trade players.'

at each stage during the life of the relationship. The critical components to a successful outsourcing deal tend to be:

- **Scope of services:** the outsourcing supplier will want to define scope of the services tightly; the customer wants flexibility so that the services are adaptable to business changes. It is possible to reach accommodation via change control procedures

- **Pricing reviews:** Many outsourcing agreements are fixed price although often with the option for the supplier to vary prices in line with inflation/ changes in the scope of the services. The parties need to agree how a change to the price may be tweaked if the scope of the services changes.

- **Employees:** If a business is transferring, under EU and Irish law, employees will generally have the right to transfer their employment to the new service provider. The parties need to determine whether or not the outsourcing of any core business function amounts to an actual business transfer. If so, they should negotiate the appropriate contractual protections.

- **Ownership of IP:** this often takes up a large part of negotiations. The customer wants ownership of the IP developed because it has funded the development; the supplier wants to protect its service offering to improve the delivery of its services to other customers. There is no one solution to this issue but there are compromises that can be agreed – often involving complex cross licensing arrangements. Joint ownership of intellectual property is not recommended.

'In addition to the market seeing non-core assets being off-loaded, equally there will be a higher level of distressed sales of both companies and assets. Some of these sales will occur via insolvency processes. It is important for potential purchasers to know the rules when buying out of such processes'.

- **Exit mechanism:** The parties need to provide what happens at the end of the contract. A detailed Exit Plan should form part of the contract. If this is left to the end of the contract term, there may be a lack of incentive to accommodate each other, particularly if a customer is moving to a service provider's competitor.

Post-deal planning
Finally - acquisitions can successfully close, but then fail, due to a lack of planning having been put into post-completion integration plans. This can operate in a wide range of areas of HR, brand, IT platforms where the demonstrable achievement of real cost savings can make a difference to costs and cash management. The current climate, more than ever, requires businesses to do their homework on these fronts in advance. Aligned with that is the need to put strong financial and reporting systems in place so that the acquired business can be rapidly integrated and monitored.

David Baxter is a partner in A&L Goodbody's Litigation and Dispute Resolution Department and is Head of the Firm's Corporate Restructuring and Insolvency Group.

Exchange traded funds - opportunities for portfolio diversification

Brian Healy, and Niall Gibney review recent developments in Exchange Traded Funds and their role in portfolio diversification.

Brian Healy

Niall Gibney

Exchange Traded Funds (ETFs) are investment funds that are traded on an exchange and which provide investment exposure to a portfolio of securities, typically equities, aiming to replicate the performance of a specified underlying index. An ever increasing range of investment exposures is available through ETFs including global equity indices, emerging markets, sectors/themes, styles, commodities and fixed income. As a result ETFs are one of the most simple and cost-effective methods of portfolio diversification available in the market. They can offer both efficient access to alpha as well as low cost beta for a portfolio.

ETFs are also just as transparent and easy to trade as a normal equity. They trade like any liquid share and investors are therefore able to buy and sell shares in ETFs through any stockbroker at any time during the trading day.

According to Barclays Global Investors there is currently in excess of $750 billion in Assets Under Management (AUM) in ETFs globally with this figure forecast to exceed $1 trillion in 2009 and $2 trillion in 2011.

The performance of European ETFs in terms of growth in AUM is starkly positive in the nine months to 30th September 2008 having increased 13% per cent compared to a fall in the MSCI Europe index of 32.3 per cent. While global ETF AUM has declined by 4.1 per cent in the same period this is significantly less than the decline in the market which, using the MSCI World Index as an indicator, was down by 25.6 per cent in US dollar terms. Recently published research by Boston Consulting Group, in the form of their Global Asset Management Survey (November 2008) finds that actively managed funds will be squeezed even further by efficient passive products like ETFs.

The relative out performance of ETFs versus the market indicates the benefits of passive investment exposure across diversified baskets of securities and provides evidence of continued inflows into these products during the financial crisis as investors have actively adjusted portfolios to reduce single-stock and active equity management exposures. Informed investors have increased allocations to fixed income and commodity ETFs in particular.

Figure 1: List of new products

ETF	*Total Expense Ratio (TER)*
ETFS Dow Jones STOXX 600 Basic Resources Fund	0.30%
ETFS Dow Jones STOXX 600 Oil & Gas Fund	0.30%
ETFS Dow Jones STOXX 600 Utilities Fund	0.30%
ETFS Russell 1000® Fund	0.35%
ETFS Russell 2000® Fund	0.45%
ETFS Janney Global Water Fund	0.65%
ETFS DAXglobal Alternative Energy Fund	0.65%
ETFS S-Net ITG Global Agri Business Fund	0.65%
ETFS Russell Global Coal Fund	0.65%
ETFS Russell Global Gold Fund	0.65%
ETFS Russell Global Steel Large Cap Fund	0.65%
ETFS Russell Global Shipping Large Cap Fund	0.65%
ETFS WNA Global Nuclear Energy Fund	0.65%

Source: The Irish Stock Exchange

ETFs on the ISE

The Irish Stock Exchange (ISE) introduced ETFs to the Irish market with the launch of the ISEQ 20® ETF in 2005. The underlying index comprises 20 of the leading Irish stocks and the ETF therefore provides investors with easy access to the Irish market return. The Exchange has also partnered with Northern Trust Global Investors to launch an ISEQ 20® ETF in the United States which has been available for trading on the NYSE since June of this year.

In October the Exchange significantly expanded its ETF product offering, thereby transforming the investment exposure which is available on the Irish market, and is now trading a range of innovative new ETFs, issued by ETF Securities. These new products give investors access to international stocks, innovative sectors and commodity underlyings including US equities, renewable energy, nuclear, gold and oil on the ISE.

Figure 1 gives the full list of these new products on ISE. These 13 products are the first tranche of a far larger platform all of which will be rolled-out and made available for trading and investment at the ISE over the next year.

The Exchange is using this initiative to raise awareness of the benefits of ETFs among Irish investors and the profile of the ISE's ETF segment internationally. The main benefits of these new ETFs, to both institutional and retail investors, include:

- Segmental exposure; simple asset allocation, via the ISE, into international equities and a variety of innovative commodity and sectoral investments
- Opportunity to diversify investment portfolios across baskets of underlying equities thereby reducing stock-specific risk
- Cost-effective instruments; low TERs which compare extremely favourably with index-tracker funds (in conjunction with the launch of its platform all ETFs issued by ETF Securities will have a 0 per cent TER until 31st January 2009)

- Transparent and easily accessible like a share; can be bought or sold through any stockbroker
- No Stamp Duty or Irish Takeover Panel Levy payable on purchases of ETF shares.

Future ETF developments

There is significant scope for further growth in ETFs as a product class in Ireland and the Exchange will continue to work with ETF Securities and other issuers to roll-out additional product on its ETF segment over the next 12/18 months. Options for the further broadening of the ISE's product offering include ETFs tracking other global equity indices, emerging markets, additional sectors/themes, styles (ie. inverse and leveraged ETFs), commodities and fixed income. Exchange Traded Commodities (ETCs), which provide investors with direct investment exposure to individual or baskets of underlying commodities, are an area of particular interest to the Exchange.

Ongoing expansion

The forecast growth in global ETF AUM referred to earlier in this article has been very resilient despite the financial crisis. This is being driven by an ongoing expansion in the number of institutional and retail users of ETFs.

Institutional users are increasingly utilising ETFs as a means of combining passive and active investment strategies by providing improved benchmark tracking for their core portfolio, with active management then used in addition to ETFs to add relative return. Retail investors globally continue to value them as a simple, low cost and easily accessible means of portfolio diversification.

Global growth in AUM will likely continue to be driven by an increased focus on portfolio diversification across sectors and asset classes following single-stock and benchmark equity index related losses incurred during the financial crisis. The new suite of products which is now available for trading and investment at the ISE provides Irish investors directly with these opportunities. The roll-out of these new products and additional ETFs at the ISE will further enhance

the ease of execution of the critically important asset allocation decision, and

portfolio diversification opportunities

which is timely and necessary in the creation of an efficient portfolio in the current financial climate and in the years ahead.

The Prospectuses for all of the ETFs which are traded on the ISE are freely available and have been approved by the Irish Financial Services Regulatory Authority (IFSRA). All of the ETFs which are available for trading and investment on the ISE have been authorised as UCITS III investment funds. More detailed information with regard to ETFs, including benefits to investors and FAQs, is available on the ISE website at www.ise.ie/etfs.

Brian Healy is director of traded markets, development, operations, and Niall Gibney is head of market development for traded markets at the Irish Stock Exchange.

Finance jobs: Q1 will be a challenge

In this latest FINANCEJOBS.IE symposium of leading recruiters' assessments of the market, the first quarter of the new year is forecast to produce sharp jobs cuts, particularly in the domestic sectors, though 2009 may bring some respite further out.

'Tis the season to be jolly, but it seems that there's not much to celebrate in the world of recruitment in Ireland at the moment, with a constant flow of job cuts being announced – with more on the horizon.

We asked a panel of leading recruiters to give their opinion on the current market situation – and although most agree that the situation will get worse before it gets better, it seems that the new year may well bring some more positive news to the market.

Do you expect further job cuts in 2009?

Paul Cotter (PC), director, Cotter Personnel Ltd

Yes I do expect to see many more jobs cuts across the financial services sector. The difficulty will be predicting how much we will see and when this will happen. On the international side we have seen big names, many of whom have operations in Ireland, announce that they are currently reviewing their global staffing needs following the financial events that have occurred over the last 12 months or so. Additional business closures, mergers and significant reductions in revenue will just add to the impact. It is well documented in the world press who these companies are. We have been part of the global financial world for a number of years now and we enjoyed the benefits of its success. The downside now is that we are going to be part of the remedy to correct and that will result in redundancies and far less opportunities. The area of most concern could be our own retail banking sector. The possible merger or demise of any of these corporations would have a dramatic impact on employment. I also feel that employment within this area would have a much slower recovery. Overall I feel it will be Quarter 1 and 2 when I think will we will see most of the job cuts next year.

Barbara Donnellan (BD), operations manager, Eden Recruitment

I would envisage more job cuts for 2009 in order to allow the market to correct itself and recover from the events of 2008. There is a lot of speculation around the major banks in Ireland with cutting the number of players. If this was to happen this would have major impacts to the number of jobs cut in the financial industry in the coming year. One of the biggest employer sectors is the funds industry, and seeing signs already of job cuts and freezes within this sector it cannot help you think more is ahead.

Ken Harbourne (KH), general manager, Robert Half International

I think you will find "under the radar" job cuts with junior "last in" employees, individuals on existing short-term contracts and underperforming staff feeling the brunt. The challenge for Irish employees is that this recession is the first global recession, so there is nowhere unaffected by this to emigrate to. So, it's a case of digging in, finding positives and working for a living. On a positive note, there will be many foreign born employees who will leave Ireland altogether which will reduce the impact on the economy. I do not see many mass redundancies, but I fully expect the first six months of the year to be the tougher part of the year.

Andrea Clarkson (AC), manager, Premier Financial Services
It really depends on how the recapitalisation of the banks is handled, but things need to happen fast especially for companies in the SME sector. Across our business we have noticed an increase in roles this month on last month so hopefully that is a good sign. There are still companies growing and new entrants on the financial services side.

Do you think that salaries will be cut further?

PC: It is very rare to see financial services companies cut salaries. They tend to reduce headcount. What we are however seeing is a reduction on what companies are now prepared to pay on positions in comparison to this time last year. We have seen anything from 5 per cent to as high as 20 per cent in some roles. When people are now losing their jobs they are now more interested in securing a new role with a salary as close as possible to their last. Those moving from current jobs are more interested in the role being offered than the money as everybody is aware of the limited rewards now available.

BC: In 2008 there were not significant salary cuts but more slowing down and flattening of salaries. We envisage if anything, there will be much smaller salary increases and salaries freezes for 2009. However if markets continue to be difficult it will be an issue for companies having to look at salary costs in order to remain competitive and viable to operate.

KH: Basic salaries will remain the same in many cases but bonuses will be severely affected. Companies who are filling new roles will not be offering large increases for successful applicants. Also, as they are in the driving seat, employers will be offering horizontal, rather than vertical moves.

AC: I think the situation is less about salaries being cut and more about when people are made redundant they are taking hits on their previous salary to get back into employment. Also, roles that had a heavy bonus focus not receiving any bonus or minimal bonus for the new year.

Which sectors do you consider have been – and will be – the worst affected?

PC: In this market we have seen the affect in every area. We all know that this downturn is not sector driven. Property, retail, motor, the list is endless on what industry is suffering. The same can be said for all the sectors within financial services.

BD: The worst sectors affected within the financial services area has been the credit related sectors - anything to do with debt has been the hardest hit. The knock on effect of this has affected other sectors such as the investment / insurance markets. In the Irish market, the mortgage / lending sector have also been hit and auxiliary services linked to this also has been impacted.

KH: Banking - there is still huge uncertainty and it will take the longest to recover.

AC: Lending has been most affected across retail, commercial and corporate banking, with the mortgage sector being the worst hit. Many of the banks are redeploying these people into collections and portfolio management as opposed to business development.

What developments do you predict for the industry in 2009?

PC: This is not the first time the global economy has been hit with a downturn of this scale but it is the first significant one for a high number of people working in Ireland within financial services. This in itself will be a challenge for many business heads to manage and motivate teams during these hard times. We do not even have the 1980s to use as a comparison here because we did not have a financial services sector that was as large or as diverse as the one we have today.

It will be difficult for a lot of 2009, but at some stage things will change and by that I mean it will get better or not get worse. The big guess is when. Banking across the majority, if not all areas, will feel more pain, insurance companies could see a more improved market, if as predicted market rate harden.

BC: With the uncertainty of 2008, it is difficult to put any predictions out there for 2009! We can expect to see the markets continuing to stay as they are with very little growth and continue to remain flat. - or worse still drop even further which, would be unimaginable. There definitely needs to be a shift to get the markets moving again, whether worse is to come to recover, or whether we are over the worst at this stage, is hard to predict. I would imagine the early part of 2009 will be a slow start and areas such as regulation, compliance, legal and accounting should be growth sectors if the markets are to recover.

KH: Events have happened so quickly that many employees are still in disbelief and you will find generation Y (roughly 22-32 year olds) will get the wake up they so badly needed ie. they will not be pandered to anymore by employers for fear of them leaving, made fully accountable for work done, have to earn a living and realise that delayed gratification is the norm. This is great news for employers. I feel generation X, who have experience of tougher times, along with couples who have young families and large mortgages will keep their heads down and ride this storm, they know it will almost certainly pass. Our experience shows that businesses and employees come out of these situations far stronger.

AC: There is steady demand for compliance and risk professionals, which is still very strong. Demand is also still there for qualified and part qualified accountants when all eyes are on the books at the moment. I would say that in the new year the first quarter will see a lot of requirements being on the contract side while people wait for the uncertainty to lift and get an understanding of their hiring requirements/ budgets. Within funds I see the main demand being in the mid- to senior-level for very specialist skillsets. Graduates will need to be very flexible in their approach as demand for non-experienced staff will be limited. All companies are looking to maximise efficiencies so there has been increased demand for business analysts/ project managers. In the general insurance / life assurance sector there has been little change in the status quo in demand for actuaries, it is still very much a sought after commodity particularly at part-qualified level on the pensions, financial reporting, pricing and reserving functions. In addition, with the current economic climate incidents of claims lodgement has increased which has pushed demand high for claims investigators and loss adjustors. Group pensions remain very steady – although financial planning roles though have been affected by the poor performance of markets.

Putting sales first

Eunan O'Carroll, sales director at Friends First, details the different regional and in-house meetings that fill his day. He also describes the level of client interaction and travel involved in working as a sales director.

Eunan O'Carroll joined Friends First in 2007 as Director of Sales & Marketing. Joining from Canada Life where he held the position of Executive Director of Sales & Marketing since September 2004. He was formerly Managing Director of Gunne Residential.

Educated at Blackrock College, O'Carroll has also held senior roles with Hibernian and Prudential where he became Regional Sales Director around the time of the acquisition by Irish Permanent. With extensive experience in mergers and strategic business positioning, his role in Friends First will focus on developing the company's distribution capability in Ireland and growing its' market share.

6:00 am My alarm goes off at 6 each morning. I always have a suit ready in the car the night before together with my gear bag for the gym. I have a quick breakfast before leaving the house.

06:10 am I drive to David Lloyd Riverview gym which only takes about ten minutes.

6:30 am I spend approximately 45 minutes working out every morning Monday to Thursday taking a break from the gym on Fridays and over the weekend. I find working out early in the morning puts me in the right frame of mind for the day.

7:45 am I leave the gym and drive to the office grabbing a coffee and some fruit on the way and get to my desk just after 8 o'clock. The first thing I do is scan the papers and then check my emails, which despite having a blackberry seem to have built up overnight.

8:30 am My first meeting, if not out of the office, will typically be at 8.30. Usually I would have meetings scheduled right through until lunch time. I have six direct reports and very often my meetings are with them.

Our business is broken up into four specific regions and there is a regional sales director responsible for delivering the business objectives in each region; East, South, West and corporate. The head of marketing also reports to me as does the senior administrator responsible for sales operations.

A portion of my time during the day is spent in meetings with each of these direct reports discussing issues particularly in the area of distribution development and sales growth. My first meeting is with the sales management team where we discuss progress on a number of the specific projects we are currently working on at present. These include the establishment of a captive distribution channel.

The broker market is changing rapidly at the moment with a significant amount of mergers and acquisition activity. This is presenting both an opportunity and a challenge for life insurance companies and something myself and the management team are actively involved in at the moment. We are also currently focused on a sales development resource project with a view to establishing real business partnerships with select brokers and distributors providing access to our resources to assist them in the sale of new lines of business and premium income growth.

11:00 am I also have in-house meetings with other key members of staff following up on issues such as product development, marketing, finance and budgeting. I try to operate, what I refer to as an ideal week, where all meetings and reports are done in a very structured way. We have a significant number of ongoing projects within our business at present. Given the changes that have taken place within the economy, a lot of time at the moment is dedicated to business development. We are currently reviewing our product offering and marketing strategy for next year. A number of key people in the organisation are specifically looking at how we as a Life company, can provide tangible and meaningful support to our brokers in what is a difficult business environment.

1:00 pm Typically, I try to schedule lunch with clients a minimum of twice a week, very often more. If I'm not meeting clients for lunch, I tend to grab a sandwich for lunch at my desk and very often I find myself following up on emails. Typically, I would have five meetings per day, depending on the time of the week and month and my reporting schedules.

2:00 pm -5:30 pm Just after lunch, I have a follow-up meeting with my assistant and check the status of all outstanding issues. Again in the afternoon, I would generally have meetings scheduled until 5:30 pm. Very often, my afternoon is focused on client meetings with brokers and our key distributors. The focus of these meetings is to review progress against plan based on a specific partnership with these clients. Items discussed would include marketing initiatives, product campaigns, client communication and product development. These meetings are usually attended by one of our Product Specialists, Marketing Executives, Customer Services Managers, or other Senior Managers throughout the business. We very much work as a team to a set agenda, which allows us to tangibly deliver real added value to our clients.

I tend to be out of Dublin at least once a week in Cork, Galway or Limerick. Usually when going to Galway and Limerick, I drive due to the poor flight schedule. This means leaving the house at 5:30 am, getting me into Galway or Limerick before 9:00 am. My first meeting on these trips would be with our Regional Manager in the area and members of the sales team. I tend to have at least four meetings with clients including a lunch meeting and aim to leave to return back to Dublin around 6:00 pm - My trips to Cork are a lot less time-consuming as I usually fly, which means not having to leave the house until 06:30. I try to stay over in one of the locations at least twice a month, which allows me to spend some quality time with clients over dinner in the evenings.

6:45 pm Following an afternoon meeting, I have a final follow-up meeting with my assistant and leave the office at around 6:30/6:45 pm. When I'm not away, I like to be home before seven to spend time with the kids and have dinner with my family.

9:00 pm Following dinner, once the kids have gone to bed, I might go for a walk to clear my head or find at least an hour to myself to relax. I like to read autobiographies and if possible, I will spend at least 20 minutes a couple of times a week catching up on my book.

Currently, I am enjoying Ronan O'Gara's autobiography, which gives a good insight into the dedication required and success that can be enjoyed as a leading Irish sportsman. At least two evenings a week, I tend to be out with clients, mainly brokers, either for dinner or very often a quick drink on the way home. I am lucky enough to live quite close to the office and very often can be found in one of my favourite haunts, Bistro One in Foxrock or Gleeson's in Booterstown Avenue.

Two more triggers towards a turning point

By Tony Keogh

Risk markets are at, or very close, to a turning point in my view. Two further triggers have now emerged:

1.The ratio of the price or value of an individual share (or the stock markets as a whole) to net assets, at replacement costs. Their ratio is often referred to as Q and derives from the work of James Tobin, a Nobel Laureate economist.

2.The P/E or price earning ratio where earnings is the denominator, on a ten year moving average basis, on real terms (thus ironing out cyclical peaks which are often unsustainable and subject to changes in economic conditions). This ratio is referred to as CAPE – the cyclically adjusted P/E ratio.

Today's valuations are considerably below average for the first time since 1988 and 1991 on Q and CAPE. This of course does not mean they could not fall further and in bad conditions they are likely to do so and this brings us back to the same question 'how bad will the world economy get?'. The markets have already discounted a near mid-70s (the first oil crisis) slump. So unless one is expecting another Great Depression this is a good time to continue to dribble funds back into risk assets.

China, and India to a lesser extent, remain my favoured markets. Others strongly favour the US as their preferred choice. Rational people should give serious consideration to buying back in at present and it may be some months yet before upward movement takes place. Of course this is a risky strategy since it is quite possible the world economy may deteriorate further than is anticipated.

The good news is that in the US (still the number one driver of the world economy) President-Elect Obama has unveiled a first class economic team to drive the economy toward recovery and together with the existing Fed Governor Ben Bernanke (in my opinion a real economist of the highest calibre, unlike his predecessor) may well do so. Bernanke's aim of driving longer term interest rates down to whatever is required, has great appeal in its simplicity and common sense in my opinion.

On the other hand US and global economic conditions remain at the very least challenging. The bad news is that the recovery is not in sight and is unlikely to be for some time. The question though is "is there no recovery?" or no recovery because of our limitations, not being able to see the ingredients, being prepared for its making. I am seeing the bottle half full.

Tony Keogh is CEO of Trinity Financial Services Ltd.

Citibank's new financial services project at the Titanic Quarter in Belfast was recognised as one of the key deals of 2008 in Northern Ireland, as was the Titanic Centre itself, at the Irish Property awards in Dublin. Pictured are (L-R) Yvonne Hogan, property editor, Irish Independent; Fintan Tierney, managing director, DTZ Sherry FitzGerald; Pat Power, Development Director Harcourt Developments who developed the Titanic Quarter; Michael Graham, Director of Corporate Real Estate, Titanic Quarter, and broadcaster Gráinne Seoige.


Solid