

Assessment of the Economic and Cross Sectoral Impacts of the Special Purpose Vehicle Sector in Ireland

Executive Summary

Submitted to

Irish Debt Securities Association

Prepared by

Indecon International Consultants

Executive Summary

Introduction

This Executive Summary was completed by Indecon International Consultants ('Indecon') on behalf of the Irish Debt Securities Association ('IDSA'). The Executive Summary summarises our independent assessment of the economic and cross sectoral impacts of the Special Purpose Vehicle ('SPV') sector in Ireland.

The SPV sector plays a significant facilitatory role within the International Financial Services ('IFS') ecosystem supporting and facilitating industries such as aircraft leasing, investment funds, (re) insurance, and securitisation.

Indecon modelling shows that the SPV sector supports 5,530 full time equivalent ('FTE') jobs across the Irish economy with a gross value added ('GVA') of €468 million as of 2022.

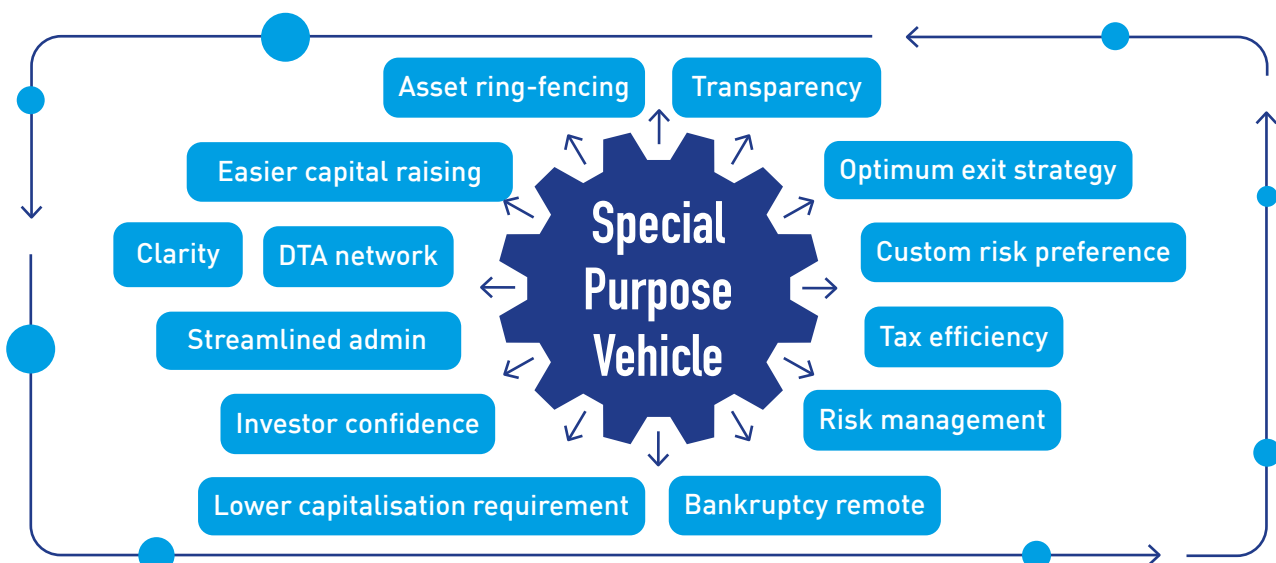
The Irish SPV sector also underpins the European Capital Markets Union objectives with particular benefits for SMEs and credit institutions, increasing the availability of credit and reducing the cost of funding, thereby supporting lending to enterprises, homeowners, and customers. With 31% of the Euro market by number of vehicles and 26% by asset value, Ireland is the leading European jurisdiction for SPVs.

The sector is estimated to grow 23% over the next five years and is considered a large contributor to the knowledge economy and high skilled employment.

SPV Interconnectedness with the IFS Ecosystem

Irish SPVs and securitisation companies are at the centre of the IFS ecosystem in Ireland, which provides an estimated 56,000 jobs and is one of the key drivers of the Irish economy. SPVs play a critical facilitating role in the key sectors in the IFS ecosystem (including aircraft leasing, securitisation, (re) insurance, and Irish regulated funds), some of which may not be possible or as successful without their use. Some of the key benefits and advantages that SPVs provide within the IFS ecosystem are outlined in the figure below.

Benefits of SPVs



Source: Indecon

SPVs: Supporting and Facilitating the IFS Ecosystem

The interconnectedness of the SPV sector within the IFS ecosystem in Ireland is economically impactful given the size and strength of each IFS sector. It is useful to consider this in assessing the importance of SPVs’ facilitatory role.

Aircraft Leasing

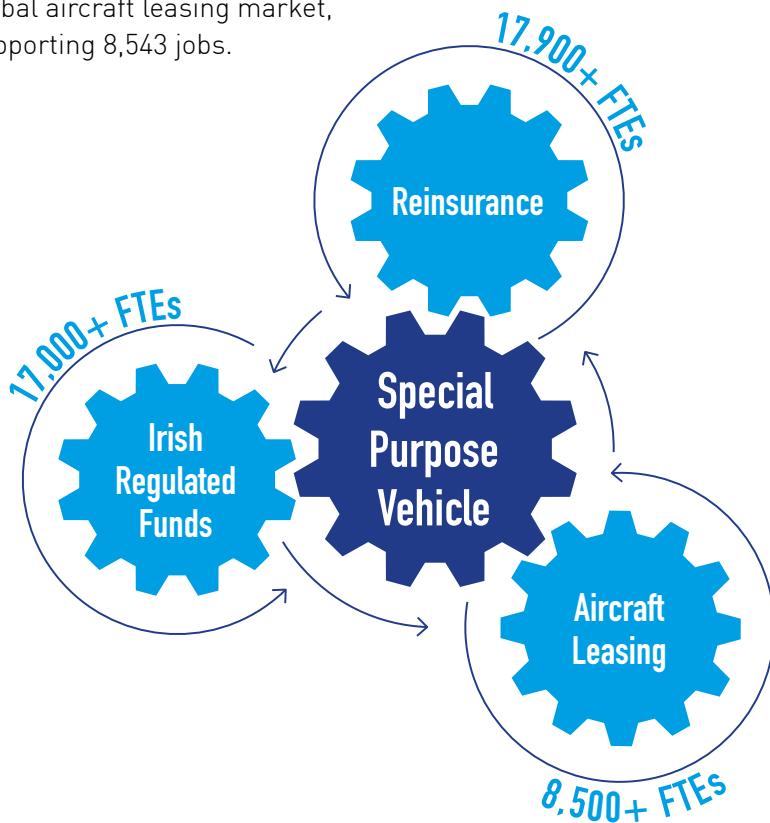
SPVs are widely used in the aircraft leasing sector as a means to mitigate risk via the bankruptcy remote structure of SPVs. SPVs also increase financing opportunities through a large range of capital sources. Irish leasing companies raise billions of debt funding from global banks and capital markets each year. Lessors are often required for security and risk purposes to establish SPVs to borrow debt from lenders or to issue bonds in the capital markets, and as such are critical for this sector. Ireland has a 65% share of the global aircraft leasing market, supporting 8,543 jobs.

Irish Regulated Funds

SPVs are used for managing and separating different strategies, assets, and risk profiles within a fund. SPVs also allow for ring fencing of assets which helps to safeguard the fund and investors. Indecon’s 2020 economic impact assessment report of the Irish funds and asset management sector estimated that 34,357 FTE jobs were supported (including direct, indirect, and induced employment), and the sector had an economy wide impact of approximately €14.8 billion.

(Re)insurance

SPVs allow (re)insurers to securitise risk thus providing access to capital. They also allow risk transfer to the SPV which can help (re)insurers comply with solvency and capital requirements. Ireland’s insurance market is the sixth largest in the EU, and the Irish reinsurance market is the second largest. Total assets of the Irish insurance corporation sector stand at €387 billion as of Q4 2022. Total employment is estimated to be 17,982 FTEs.

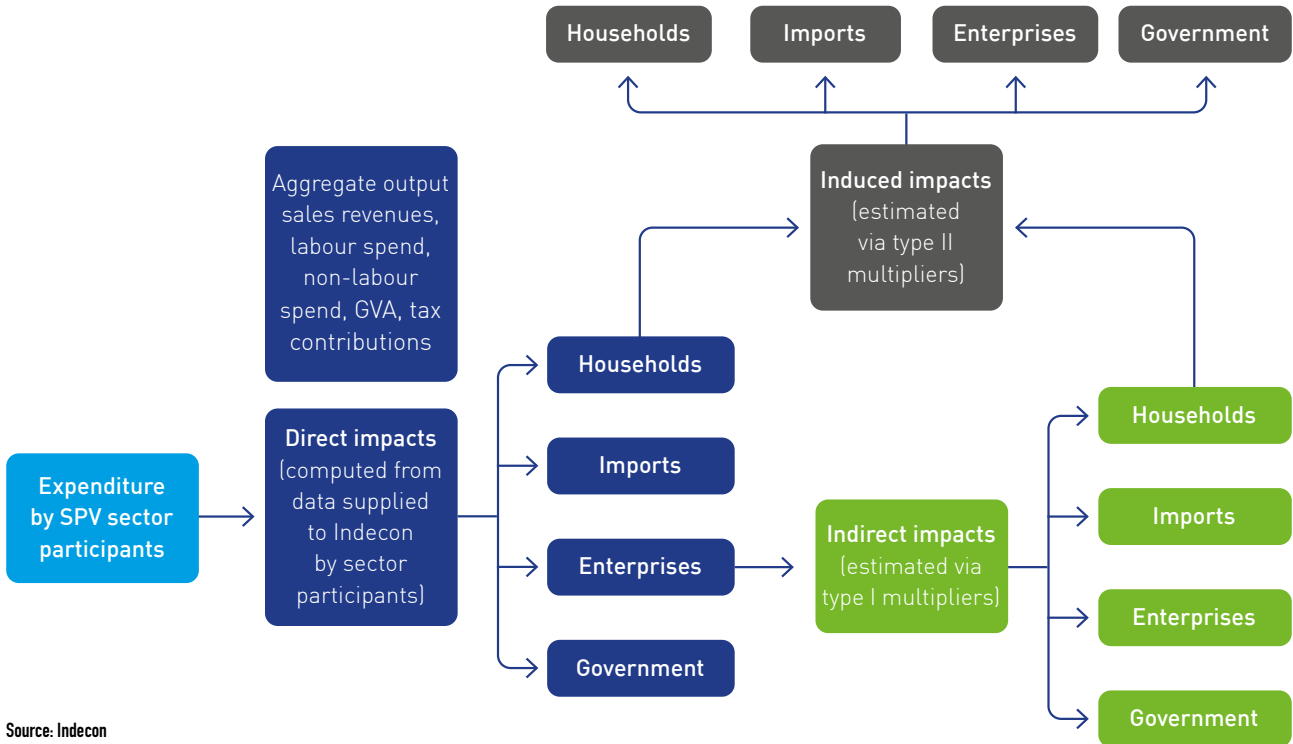


Irish SPVs and securitisation companies are at the centre of the IFS ecosystem in Ireland, which provides an estimated 56,000 jobs and is one of the key drivers of the Irish economy.

Economic Impact of the SPV Sector

In addition to its facilitative role, the SPV sector is a significant employer in its own right. The economic importance of the SPV sector can be separated between its direct impact on the economy and its wider impact through indirect and induced flows. Direct impacts relate to the economic activity from sector expenditure. Indirect effects stem from increased economic activity caused by direct effects. Induced effects are caused by the increased personal income from direct and indirect effects. The figure below highlights how these impacts are linked together.

Channels of Impact of Special Purpose Vehicle Sector on the Irish Economy



Source: Indecon

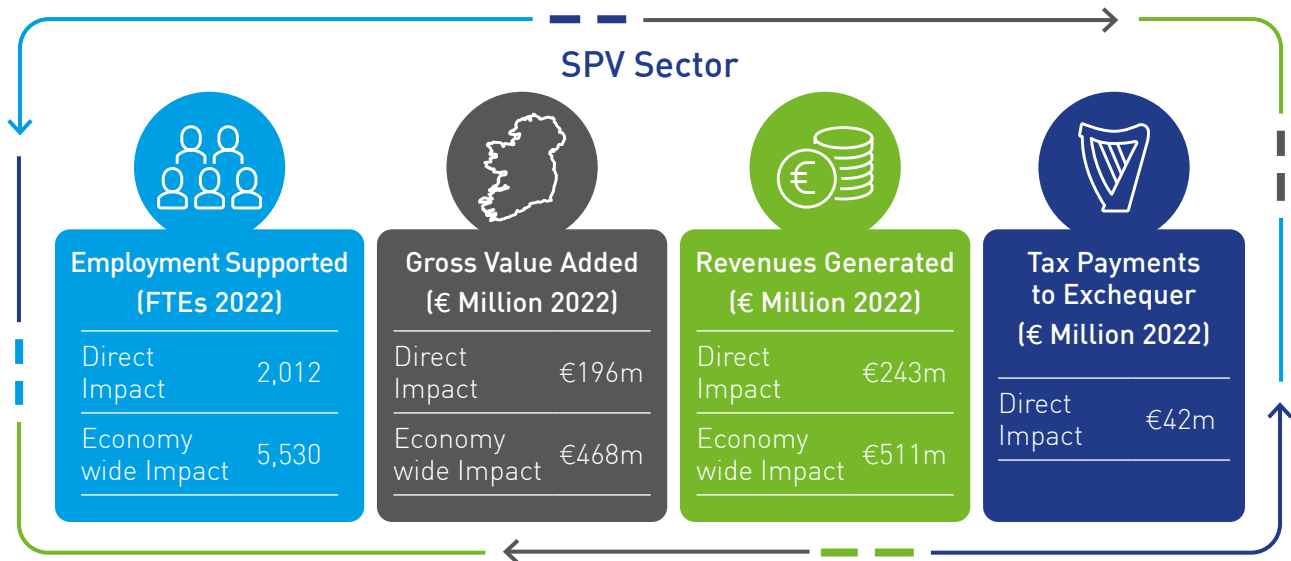
The direct impacts were calculated from the key findings of the primary research conducted by Indecon. These results are presented below. Variables are split between corporate service providers and audit, legal, tax and listing services. These figures represent the direct impact of the SPV sector and do not account for wider economic benefits across the Irish economy. Geographic analysis of economic activity shows that the majority of activity occurs in the Eastern and Midlands NUTS2 region, with 1,664 FTEs and total incomes of €97.6 million, with a growing proportion in the other NUTS 2 regions in Ireland.

Economic Impact				
	Employment (FTEs)	Revenue/Fee Income (€ Million)	Expenditure (€ Million)	Tax Payments (€ Million)
Corporate Service Providers	590	99	64	10
Audit, Legal, Tax and Listing Services	1,422	143	102	32
Total	2,012	243	166	42
Source: Indecon analysis				

In addition to the direct impacts of the economic and cross sectoral activity of the SPV sector, these impacts also have knock-on/multiplier impacts across the wider economy because of sector expenditure and employment in the supply chain. Indecon's sectoral input-output model of the Irish economy has enabled the quantification of these multiplier impacts (including direct, indirect, and induced impacts).

The SPV sector directly employs an estimated 2,012 FTE persons, rising to 5,530 FTEs when wider multiplier impacts are included. There is an economic impact of approximately €511 million across the entire economy, accounting for direct, indirect, and induced effects. The GVA in 2022 is estimated to be €196 million in direct effects and further €468 million in indirect and induced effects.

Economic Impacts of the SPV Sector on the Irish Economy



Source: Indecon analysis

The SPV sector supports 5,530 FTE jobs with an economic impact of approximately €511 million across the entire Irish economy.

SPVs and the EU Capital Markets Union

Irish and European Union ('EU') authorities have recognised the importance of non-bank funding to the European economy. In Europe, many businesses are highly dependent on banks for lending, while SPVs offer an opportunity to obtain alternative sources of financing. The European Commission has made the development of the European securitisation sector a key aspect of the Capital Markets Union ('CMU') initiative.

There are three main objectives of the CMU:

- Support a green, digital, inclusive, and resilient economic recovery by making financing more accessible to European companies.
- Make the EU an even safer place for individuals to save and invest long term.
- Integrate national capital markets into a genuine single market.

Ireland's Role in the EU Capital Markets Union



Objective 1

**Green, Digital,
Inclusive and Resilient**



Objective 2

**Safer Investing
in the EU**



Objective 3

**Integrated Capital
Markets**

European Securitisation Market

SPVs play a critical role in some of the most important sectors of the Irish economy. Securitisation is an effective means to build stronger and more diversified capital markets, by both increasing the availability of credit and reducing the cost of funding. Securitisation allows banks and non-bank lenders to distribute risk across a wide range of investors so that they can engage in further lending to households, small and medium-sized enterprises ('SMEs') and others. Unlocking capital makes it easier for credit institutions and non-bank lenders to lend to enterprises, homeowners, and customers. It also provides non-bank financial institutions with access to a source of market-based finance. In Ireland, securitisation structures are established as SPVs and are known as Financial Vehicle Corporations ('FVC').

SPVs, as FVCs, also represent an important niche sector in which Ireland has developed a world-leading reputation and status. Ireland leads Europe in this sector accounting for over 31% of the European market by number of FVCs and 26% by asset value. As of March 2023, these 1,623 Irish FVCs held €599 billion in assets. The success of Ireland in this regard is a key driver of Objective 1 of the CMU as it directs SMEs to alternative providers of funding. It also supports a resilient recovery which is outlined as a key aim of Objective 1.

Securitisation allows banks to distribute risk across a wide range of investors so that they can engage in further lending to households, small and medium-sized enterprises ('SMEs') and others. Unlocking capital makes it easier for credit institutions and lenders to lend to enterprises, homeowners, and customers.

Total Assets Reported by all Financial Vehicle Corporations (€ Billions) 2018 - 2023

	BE	DE	ES	FR	IE	IT	LU	MT	NL	PT
2023 Q1	54	64	148	300	599	491	411	2	167	18
2022 Q1	55	50	164	283	593	468	384	1	203	20
2021 Q1	59	50	184	257	517	484	343	1	210	22
2020 Q1	61	52	173	257	461	474	312	1	254	18
2019 Q1	71	49	184	235	454	434	278	1	255	25
2018 Q1	68	52	208	228	403	375	254	1	264	30
Growth	-21%	23%	-29%	32%	49%	31%	62%	100%	-37%	-40%

Source: Indecon analysis of ECB data

The Irish SPV sector also helps to achieve the other objectives of the CMU. The bankruptcy remote nature of SPVs and their ability to ring fence assets helps to achieve Objective 2 by building retail investors' trust in financial markets. Additionally, the tax efficient nature of SPVs combined with Ireland's host of Double Tax Agreements ('DTA') helps to achieve Objective 3 by alleviating the tax associated burden in cross border investment, ensuring that savers and investors are not paying tax on the same activity in multiple jurisdictions.

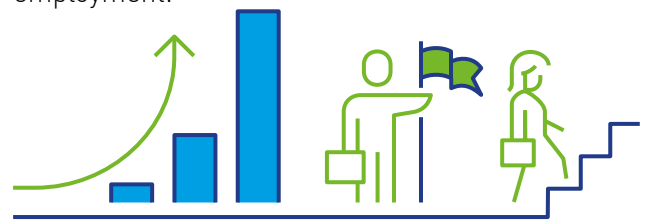
Overall Conclusion

Indecon has conducted an independent assessment of the SPV sector and highlighted the significant facilitatory role that it plays within the IFS ecosystem. Of particular importance is SPVs' ability to benefit aircraft leasing, securitisation, and the Irish funds sector. Each one of these significant industries makes considerable use of SPVs. Indecon modelling also shows that the SPV sector supports 5,530 FTE jobs across the economy with GVA of €468 million as of 2022.

The Irish SPV sector plays a large role in contributing to the European Capital Markets Union objectives of increasing access to finance, particularly for SMEs. With balanced gender employment and FTEs located across Ireland, the SPV sector supports government policies of equality and inclusion. Growth prospects and attitudes of the sector are positive with it being considered a large contributor to the knowledge economy and high skilled employment. Based on insights from SPV sector participants, the sector is estimated to grow 23% over the next five years.

Employment in the Sector is estimated to grow 23% over the next five years

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