Highlights

The total number of active Irish SPVs hit an all-time high during Q3

Total Assets
€851bn
+€56bn in Q3

Q3 saw the biggest jump in Irish SPV assets on record

Total SPVs
2,493
+50 in Q3

The SPV sector continues to grow rapidly, generating high-skilled employment opportunities and strongly contributing to domestic income

Est. Employment
2,866
+59 estimated FTE during Q3

Direct Econ. Contribution/year
€338m
with further €210m in indirect effects

Ireland is at the forefront of the European securitisation sector, with the largest share of FVC assets in the euro area

Share of Euro Area FVCs
26.5%
Down -0.2% from 26.7% last qtr

Share of Euro Area FVC Assets
24.0%
Up 0.3% from 23.7% last qtr
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Information About The Report

Introduction
This report was produced by Atlantic Star Consulting and is intended primarily for those working in the special purpose vehicles (SPVs) sector in Ireland.

The report is published quarterly, and provides an independent analysis of the Irish SPV sector, primarily using data published by the Central Bank of Ireland and European Central Bank but also drawing on industry and in-house research.

Background
Ireland is home to a significant international financial services sector, with many of the major global banks, investment firms, aircraft lessors, and insurers establishing a presence here.

The SPV sector in Ireland contains almost 2,500 vehicles with €851 billion in assets, and is a key part of Ireland’s international financial services offering. The sector employs a significant workforce in Ireland and contributes a sizeable amount to Irish GDP each year.

Access to information about this market is a key priority for firms in the sector, whether they are looking to attract new clients, expand market share, or navigate legal, regulatory and tax changes.

Atlantic Star Consulting provides this information through data aggregation, primary research, and comprehensive analysis of the sector.

Scope
This report provides a macro analysis of the SPV sector in Ireland, detailing the size, scope and composition of the sector along with trend analysis to examine how the sector is changing over time.

It is intended to provide market participants with an up-to-date assessment as to what the key developments are in the sector, what types of structures are being launched, and who they are being set up on behalf of.

The Irish SPV Report does not attempt to provide a micro-level analysis of individual SPVs, securitisations, investment managers, originators or service providers. This analysis is available from Atlantic Star Consulting through our private research services.

Data
The data used in this report has been obtained from several third party sources and compiled by Atlantic Star Consulting.

A full list of sources and references is available in the References section at the end of this report.

Key Definitions
FVC - Financial Vehicle Corporations are entities which report to the Central Bank of Ireland under FVC Reporting regulations. They are companies engaging in securitisation activities as defined by Regulation ECB/2013/40.
SPE - Other Special Purpose Entities are companies which report to the Central Bank of Ireland under SPV Reporting requirements. They are entities which elect into S.110 of the TCA 1997 but do not engage in securitisation activities.

SPV - Special Purpose Vehicles is the term used in this report for FVCs and SPEs taken together as one population.

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Contact

Atlantic Star Consulting can be contacted through the following channels:

Web: astarconsulting.net
Email: info@astarconsulting.net
Phone: +353 85 1227077
Executive Summary

The Irish SPV sector saw continued growth in the third quarter of 2019, as vehicle numbers grew by 50 and assets rose by €56bn. This was despite a market backdrop that saw volatility in equity prices and an increase in geopolitical risk.

The asset growth was seen predominately in the bank-linked SPVs category, with CLOs also showing a healthy increase.

Historical data from the Central Bank of Ireland was revised upwards this quarter, adding 63 vehicles which had not previously reported.

Our analysis of the sector shows that the current employment in the sector is 2,866, and total fees of €338m are paid annually to domestic firms operating in the Irish structured finance market.

Ireland once again came top of the European league table in terms of FVC assets with a 24.0% share, up from 23.7% in Q2-2019.

UK and US-based entities continued to sponsor a majority of Irish SPVs as measured by assets, accounting for 29.3% and 23.8% respectively at the end of Q3-2019.

**Dominick Barrett**

Managing Director,
Atlantic Star Consulting

15th January 2020

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1. Key Developments in Q3

1.1 The Market Backdrop

The third quarter of 2019 was a continuation of the lower interest rates and heightened geopolitical risk that has been the theme of global markets over recent years.

- Global bond yields declined as the US Federal Reserve cut rates twice and the European Central Bank restarted its quantitative easing programme in an effort to stimulate economies.

- Boris Johnson won the contest to become the United Kingdom’s next Prime Minister with a ‘do or die’ pledge to take the UK out of the European Union on the 31st October, with or without a deal.

- The US-China trade tensions escalated, with the 10yr US Treasury yield dipping below the 2yr yield in an inversion that exacerbated economic pessimism.

- The German economy appeared to suffer more than its peers due to heavy reliance on exports, as dual Brexit and US-China trade worries caused the DAX to drop by almost 9% in the first 6 weeks of the quarter.

- Italian politics regained attention as the populist coalition government between the Five Star Movement and Lega Nord came to an end, with Five Star opting to partner with the Democratic Party rather than call fresh elections in a move which was broadly seen as positive for Italian bonds.
1. Key Developments in Q3

1.2 Numbers of SPVs

A strong increase of +50 vehicles during Q3-2019 has brought the total number of Irish SPVs reporting to the Central Bank of Ireland to yet another all time high.

Revisions to previous quarters elevated reporting numbers by about +63, as vehicles which had previously gone unreported were required to provide back-data from their first transaction date onwards.

This increase brings the yearly growth rate of Irish SPVs to +10.9%, with a net additional 245 SPVs active in this quarter than there were in Q3-2018.

1.3 Total SPV Assets

Assets held by Irish SPVs soared by +€55.7bn during Q3-2019 to reach the highest amount on record.

This increase represented a +7.0% increase in assets over the quarter and a +19.8% increase over the past 12 months, in what has become the longest ‘winning streak’ in terms of sector activity since records began.

This increase in activity comes ahead of a lingering uncertainty about the timing and effects of the EU’s new Anti-Tax Avoidance Directive. The new interest limitation rules in particular may limit the viability of some SPV structures when they come into effect, however the timeline for the implementation of this has not yet been determined.

Industry sources have indicated that several vehicles are due to retire in either Q4-2019 or Q1-2020. The trend in SPV assets over the next few quarters is therefore uncertain, and we may see a sharp drop similar to Q1-2018 depending on the size and scale of vehicles choosing to exit the Irish SPV sector.
1.3 Breakdown of SPV Assets

Q3-2019 saw broad based growth across SPV asset categories, with securitised loans increasing sharply by 13.3% during the quarter, representing a 22.8% increase since Q2-2018.

The debt securities category, which also includes tradable loans held by vehicles such as Collateralised Loan Obligations (CLOs), increased by 8.0% during Q3.

The varied nature of vehicles in the Irish SPV sector is highlighted by the diverse mix of instruments shown in Chart 6 below. Our research has identified more than 27 different types of activity within the securitisation segment alone, which does not include many of the vehicles which are linked to investment funds or aircraft lessors.
1. Key Developments in Q3

1.4 Breakdown of SPV Liabilities

While debt security issuance did increase by €16.7bn during Q3, increasing by 4.1% from Q2-2019, this was dwarfed by the increase in volume of loan funding to Irish SPVs.

The loan and deposits received category, which expanded by 18.2% during the quarter to reach €262.8bn, mostly represents those SPVs which are not funded by issuing tradable securities.

These loans may come from related investment funds, group treasury companies, banks or other financial institutions, and are primarily concentrated in the non-securitisation segment of the Irish SPV population.

This jump primarily came from other euro area sources, accounting for €26.3bn of the increase.

![Chart 7: Change in SPV Liability Types in Q3](source: Central Bank of Ireland SPE Statistics)

![Chart 8: Balance Sheet of Irish SPVs: Liabilities](source: Central Bank of Ireland SPE Statistics)
1.5 Geographic Exposure of SPVs

Irish SPVs have a diverse geographic exposure, which reflects the internationalised profile of the entities in operation here. This contrasts, for example, with the securitisation sector in Italy which is almost wholly domestically focused.

Irish exposures were down by -1.3% during Q3, but up 4.3% over the past 12 months. This mostly reflects a reduction in securitised Irish loans this quarter, offset by an increase in deposit and loan claims.

Exposures to other euro area entities have grown most significantly over recent quarters, with a 60.6% increase over the 12 months to Q3-2019. This reflects a combination of new CLO vehicles, which tend to invest mostly in euro area leveraged loans, and a large increase during Q3 in bank-linked SPVs which we will explore in the next section.

Assets with US counterparties grew by 14.2% during the quarter and by 24.4% over the previous 12 months, with all instrument categories showing increases over both time periods.

Exposures to UK based entities have increased from €76.2bn at the time of the EU referendum to €89.7bn at the end of Q3-2019, an increase of 17.6%.

Source: Central Bank of Ireland SPE Statistics
2. Types of Structures

“The wide variety of structures domiciled here underlines Ireland’s importance as an international financial centre.”

2.1 Key SPV Activities

The diverse activities of Irish SPVs can be seen in Chart 11 below, with no single activity claiming more than an 11.6% share of total assets.

The importance of the CLO sector has increased dramatically in recent years, as will be seen in Section 4.

The wide variety of structures domiciled here underlines Ireland’s importance as an international financial centre.

![Chart 11: SPV Assets by Vehicle Type](source: Central Bank of Ireland SPE Statistics)
2.2 Changes in Activity During Q3

By far the largest increase in SPV activity type during Q3-2019 was that of bank-linked investments which increased from €7.5bn to €33.3bn, a rise of 344%.

Digging down into the data, this appears to be linked to one or more transactions whereby a euro area bank is parcelling up a portfolio of securitised loans into an Irish SPV, funded through loans to the SPV.

Other securitisation categories such as RMBS and CMBS saw moderate declines of -3.6% and -3.2% respectively during the quarter, likely reflecting older structures, which at this stage are paying down their final tranches.

CLOs saw an increase of €6.5bn in asset holdings during the quarter, which represents a rise of 7.2% from the previous quarter. This segment of the Irish SPV population has seen rapid growth over the past few years, with a 45.5% increase in the last 12 months and a 180.9% increase in the last 3 years.
3. Economic Contribution

3.1 Employment in the Irish SPV Sector

Our measure of domestic employment in the broader Irish SPV sector currently stands at 2,866, which reflects high-skilled employment across several sectors including: legal, corporate administration, audit, tax, directorship & governance, accounting, fund management, loan servicing, banking, depositary and other related services.

This estimate is arrived at by combining several industry sources and benchmarking to the levels of activity in the Irish SPV sector each quarter, with increasing numbers of SPVs leading to a higher overall level of employment in the sector.

3.2 Fees Paid by the Irish SPV Sector

Our new research conducted into the securitisation segment of Irish SPVs has revealed that significantly more fee revenues are generated domestically than previously estimated.

Estimates using entity-by-entity company account analysis show that annual direct fees paid by SPVs to Irish service providers topped €338m in the 12 months to Q3-2019, with a further €210m in indirect economic benefits including multipliers.

These fees are concentrated in several key segments which include audit, tax, administration, legal, servicing and investment management. We use median values from observed data and proportioning to estimate for entities for which there is little visibility.
4. A Focus on CLOs

4.1 The Growth of Irish CLOs

CLOs are one of the key drivers of growth in the broader Irish SPV sector. These vehicles, which are domiciled in Ireland, securitise mostly leveraged loans and high yield debt into tranches of differing risk.

The number of Irish CLOs has risen by 23.6% over the past year, demonstrating that Ireland is a favoured jurisdiction for locating these structures.

Q3-2019 saw an additional 16 CLOs coming onstream, according to Central Bank of Ireland data, which represented a €6.5bn increase in assets.

Chart 15: Total Assets of Irish CLOs
Source: Central Bank of Ireland SPE Statistics

Chart 16: Numbers of Irish CLO Vehicles
Source: Central Bank of Ireland SPE Statistics

4.2 Key Counterparties

Central Bank of Ireland data, which is confirmed by our new entity-by-entity research, shows that the majority of CLO sponsors are located either in the UK or the US, in some cases acting through an Irish branch.

Most borrowers of the underlying loans are located in the euro area, with US and UK companies accounting for most of the remainder. CBI estimates show that around 85% of outstanding CLO loan assets are classified as ‘cov-lite’.

US investors own around 18% of Irish CLO debt, with UK investors owning around 13%, Japanese investors 13%, and German investors around 8%. Over half of CLO debt is held by investment funds.
5. The Euro Area FVC Sector

5.1 Size of the Sector

Assets in the euro area FVC sector expanded by €19.1bn (0.9%) in Q3-2019 to reach €2,046bn, held through 4,301 FVCs.

Irish FVCs drove 59.9% of this growth during Q3 in nominal terms (11.4/19.1), however this effect is inflated by the fact that several countries saw their FVC sector shrunk during the quarter which reduced the amount of overall increase.

Irish growth of €11.4bn was by far the largest in the euro area during Q3, followed in second place by Italy (€6.7bn), France (€5.9bn) and Luxembourg (€4.3bn).

The Dutch FVC sector contracted by -€3.7bn during the quarter, along with Spain (-€2.0bn), Germany (-€1.3bn) and Portugal (-€1.2bn).

In terms of vehicle numbers, Luxembourg comes out on top with 1,246 while Ireland is ranked second with 1,138. Luxembourg FVCs tend to be much smaller than Irish FVCs, which leads to a smaller sector in asset terms.

The next largest country in vehicle terms is Italy with 740 FVCs, while France has 404 FVCs, the Netherlands has 364 FVCs and Spain has 287 FVCs.

Luxembourg saw the largest number of new vehicles during the quarter with 78 new FVCs. Comparatively, there were 22 new Irish FVCs.

NB: ECB statistics and Central Bank of Ireland statistics show slightly different amounts for vehicles and assets. This may be due to CBI reclassifications that have not yet been processed by the ECB. To keep things consistent, we have used ECB data here alongside other ECB data, and CBI data elsewhere.
Chart 19: The euro area FVC sector in Q3-2019

Source: European Central Bank
Change in FVC vehicle numbers refers to net change in vehicles. Values shown at bottom of each bubble refer to the change from Q2-2019.
6. Analysis of SPV Sponsors

“The UK tops the list of jurisdictions where Irish SPV sponsors are located.”

6.1 Location of SPV Sponsors

The UK tops the list of jurisdictions where Irish SPV sponsors are located. UK sponsors are split relatively evenly between asset managers and banks.

The US is another very significant sponsor location, and has been growing in importance over recent years.

Irish sponsors tend to be either Irish banks, or subsidiaries of UK or US asset managers operating through branches here.

Chart 20: Sponsors of Irish SPVs by Country of Domicile
6.1 Sector of SPV Sponsors

Asset managers were the most significant sponsor of Irish SPVs in Q3, continuing a trend that has been observed for several years.

These sponsors are engaged in a wide variety of vehicles, and may be CLO managers, fund managers using SPV structures paired with a fund, or private equity firms holding assets through SPVs.

Our research shows that while banks are more likely to sponsor older pre-crisis vehicles, the new wave of SPVs is being driven largely by asset managers and so we are likely to see this share increase over time.

The role of government sponsors of Irish SPVs is reducing as crisis-era vehicles such as NAMA structures are wound down.
7. Financial Vehicle Corporations

7.1 FVC Assets
Irish FVCs have seen sustained and consistent growth over the past 6 quarters, bringing total assets up to €491.4bn at the end of Q3.

Assets increased by €9.5bn, primarily driven by an increase of €6.5bn in the CLO segment which has powered a significant part of the growth over recent quarters.

The amount of assets held by Irish FVCs is higher than at any time in the past three years, and is on track to breach the €500bn threshold next quarter if current trends continue.

8.2 FVC Vehicle Numbers
There has been a steady increase in the numbers of FVCs reporting to the Central Bank of Ireland over the past three years. Prior to this, there was a consistent decline in numbers as vehicles from the pre-crisis period were gradually wound up.

This quarter, there was an increase of 21 FVCs (+1.9%) bringing the total to 1,156 FVCs at end Q3.

2019 saw activity slow down slightly, with a net 114 new FVCs created during the past 12 months, which equates to a growth rate of 9.1% year-on-year.
8. Other Special Purpose Entities

8.1 SPE Assets
The Irish SPE population saw substantial growth during Q3, primarily due to the increase in bank-linked vehicle assets discussed in Section 2.
Assets increased by €46.2bn, of which €25.8bn was related to bank-linked vehicles transferring securitised loans. Other segments such as investment fund-linked SPVs, external financing SPVs and intra-group financing SPVs all saw increases during the quarter.
This increase in assets pushes the SPE asset figure above where it was before Q1-2018 when a number of significantly large vehicles exited the structure.

8.2 SPE Vehicle Numbers
There has been a steady increase in the numbers of SPEs reporting to the Central Bank of Ireland since reporting first began in Q3-2015.
This quarter, there was an increase of 29 SPEs (+2.2%) bringing the total to 1,337 SPEs at end Q3.
While 2018 saw muted growth in the segment, 2019 saw activity bounce back strongly with a net 137 new SPEs created during the past 12 months. which equates to a growth rate of 12.5% year-on-year and has seen SPEs outstrip FVCs for the first time in 7 quarters.
References & Sources

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