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Exchange Traded Funds - changes and opportunities

AOIFE O'CONNOR analyses the buoyant global ETF marketplace and the developments that look set to alter the market including regulation, technological advances and the opportunities that these can create.

AS HAS been widely publicised, ETFs continue to be a focus of various regulatory bodies including the Central Bank of Ireland ('CBI'). The CBI released its discussion paper in 2017 and continues to have an open dialogue on matters raised in the paper with industry participants and other regulators. The key discussion points in the CBI paper appear to be focused on particular areas such as transparency of portfolio holdings of active ETFs and non-ETF share classes.

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While this level of focus on ETFs may appear on the face of it to be challenging, we are continuing to see significant growth in the space. No matter which ETF growth projection you read, global ETF assets under management are expected to at least continue their annual growth rate of approximately 20% for the foreseeable future. Europe remains in line with the global ETF growth rates and given that Ireland is the largest European domicile for ETFs and indeed second largest in the world, this is certainly good news for the industry locally. Existing ETF sponsors as well as managers thinking about entering the

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ETF arena will need to look at their business models to ensure they are fit for purpose. ETFs tend to be lower fee products, generally considered to be one of their key benefits for investors. As a result, existing operational models that might work for other investment products, may not be as successful or sustainable for ETFs. PwC conducts an annual survey of global ETF stakeholders – including managers and service providers. In our latest ETF survey, we asked participants about the impact that these fee pressures were having on their businesses. Answers ranged from creating and leveraging research to tools to assist their teams and clients to an increase in outsourcing. Service providers also find themselves facing the same challenges given the downward fee pressure. Pressures, as with every challenge, also create opportunities. When we asked our survey participants about how the use of technology would impact ETFs, a third (33%) saw this as an opportunity to reduce costs. As we outlined in our Live Digital or Die paper (https://www.pwccn.com/en/asset-management/technology-impacting-etfs.pdf), technology can potentially change many aspects of the business model – from operations to distribution to product creation. Navigating the ever-changing emerging technologies is not without its challenges and the ability to leverage from knowledge and experience in this area will be crucial to success.

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The growth and innovation of ETFs presents both challenges and opportunities for ETF sponsors, service providers and regulators. Evolving issues with respect to products, markets, distribution, technology and investor preferences will help to shape the future.

Aoife O'Connor is Asset & Wealth Management Partner at PwC.

Indirect Tax Technology - bridging the gap

With an increased investment in technology by tax authorities, added complexity to global tax reporting obligations and a significant increase in transaction volumes, VAT managers are feeling overwhelmed writes PwC's JOHNNY WICKHAM.

TAX authorities are becoming more skilled in data extraction and analysis and there is a growing challenge to both understand and meet these increasingly onerous obligations. More demanding requirements have prompted a significant increase in the IT resource and software investment requirements of an organisation's tax function.

What is your data saying?
Inherent errors such as incorrect taxing decisions, system configuration errors or irregular trending and anomalies can be significantly easier to identify with the efficient use of data analytics and visualisation.

"Where managed efficiently, significant cost saving and risk identification opportunities can be derived from the indirect tax data being collected at transaction level which can also provide insights into several other areas of the organisation."

Where managed efficiently, significant cost saving and risk identification opportunities can be derived from the indirect tax data being collected at transaction level which can also provide insights into several other areas of the organisation. Using technology based solutions to address a technology initiated challenge by tax authorities can contribute to a more robust compliance process and can help reduce the fear and pain increasingly associated with an indirect tax compliance function.
In considering data analytics and visualisation for tax we distinguish between the various stages of progression from the basic building

Johnny Wickham

blocks of easy access to robust data to a focus on harnessing insights and value from areas like visualisation, more automated tax reporting, predictive analytics and tax modelling. From an indirect tax perspective, bridging the gap between tax and IT can be challenging. However, in line with a well-defined tax technology strategy and a clear set of objectives, and at the same time considering any ERP optimisation opportunities (i.e. making the most of the features and capability of your existing technology), data analytics and visualisation can provide an efficient and meaningful representation of data in a visually appealing manner, highlighting the key indicators of relevance.
PwC's Indirect Tax Technology offerings seek to create sustainable indirect tax strategies, provide strong indirect tax processes as well as robust control frameworks, including the technology tools required to support, adapt to and manage this changing indirect tax compliance landscape.
These bespoke tools directly address indirect tax process objectives using a variety of technology platforms (e.g. Tableau, Qlik Sense, Power BI and Visual Basic), all of which support our indirect tax consulting offering. One such application is the PwC Indirect Tax Data Analytics application (VATVIEW) which provides detailed insights into an organisation's VAT position. Based on the checks typically carried out by a tax authority as part of an audit, it highlights potential risks or process improvement opportunities that in turn can lead to significant risk-reduction and cost-saving opportunities.

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In terms of PwC Ireland's approach to tax data and analytics, we are investing in both our people and our technology to help our clients address their challenges. The tax practice is made up of over 600 professionals and at this stage approximately 75% of our people have been trained in analytic techniques.
We firmly believe that the tax function and professional of the future will be more data aware and data skilled and from a recruitment and training perspective we are committed to responding to this.

Johnny Wickham is senior manager, Indirect Tax & Indirect Tax Technology at PwC.

Environmental, Social & Corporate Governance (ESG) & Sustainability to become mainstream

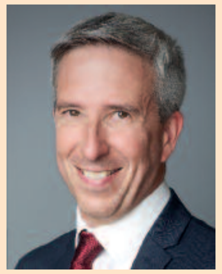
The EU's Action Plan on Sustainable Finance is set to bring ESG and sustainability into the financial services mainstream write PwC's KIM MCCLENAGHAN and LESLEY BELL. They say that early movers in engaging with sustainability and ESG issues will be best placed to deal with evolving policies and regulations in the space.

IN MAY 2018 the European Commission presented a package of measures aimed at starting the delivery of its March 2018 Action Plan on Sustainable Finance. Whilst critical to the assimilation of sustainability into the EU's financial policy framework, these initiatives are intrinsically linked to the successful delivery of wider EU, and indeed global climate and sustainable developments objectives (e.g. Paris Climate Agreement & UN SDGs). The European Investment Bank (EIB) note that additional funding of €270bn per annum is required if the EU is to support sustainable growth and transition towards a low carbon more resource efficient circular economy. This funding must be directed towards projects which will; decarbonise the energy and transport sectors; future proof the built environment and infrastructure; and improve the sustainability of water and waste systems. Given the huge potential of the financial sector for sustainable investment, creating an enabling framework for private investors is thus critical.

"As CEOs shift their focus to maximising stakeholder value, sustainability is the lens through which businesses are judged by its consumers and investors; and ESG is quickly evolving from a luxury to a business imperative."

The EU's proposed measures focus on 3 broad areas: the establishment of a unified EU classification system of sustainable economic activities; improved disclosure requirements in terms of how institutional investors integrate ESG factors into their risk process; and the creation of a new category of benchmarks which will help investors compare the carbon footprint of their investments.

As such the content of these measures is not a surprise as many of the proposals are reflective of the tenure of the responses submitted to the "Public Consultation on Institutional Investors' and Asset Managers' Duties regarding Sustainability". The proposals also reflect the ever increasing engagement of the finance sector with sustainability.


Kim McClenaghan

However many may not have anticipated that within the proposed measures, that there would be a requirement for the disclosure of how the remuneration policies of financial market participants are aligned to the sustainable investment target of the financial product and also are consistent to the integration of sustainability risk. Yet should we really be surprised at the length that these proposed measures will go when globally there has been an increasing focus on transparency?


Lesley Bell

This transition towards increased transparency is not limited to the financial sector; it is reflective of a growing trend for enhanced disclosure across all economic sectors. Changing consumer and investor demands, driven by an increasing desire for information on the full impact of a company's business operation and strategy (e.g. environment/resource impacts; employee welfare; engagement with social issues/human rights; anti-corruption/anti-bribery record) is driving business change. As CEOs shift their focus to maximising stakeholder value, sustainability is the lens through which businesses are judged by its consumers and investors; and ESG is quickly evolving from a luxury to a business imperative. In parallel, the regulatory environment is also shifting. The EU's Non-Financial Reporting Directive now requires companies to publish information in relation to a range of non-financial metrics. In many instances companies may be obligated to report on areas currently not subject to monitoring.

As noted in our AWM Revolution report, (October 2017), it is anticipated that ESG investing will grow rapidly.

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In a changing world where sustainability and transparency become increasingly important, growth and value creation opportunities will emerge for those businesses whose operating principles are aligned with the preferences of the environmentally and socially conscious consumer and investor. In addition, businesses engaging early with sustainability and ESG will be better positioned for current/ future policy and regulatory landscape.

Kim McClenaghan, Partner, PwC Energy, Utilities & Sustainability Consulting Practice and Lesley Bell, Director, PwC Asset & Wealth Management Practice.

GDPR Day 2 and Beyond: What you need to know

With the 25th May 2018 implementation date for GDPR passed there is a risk that GDPR fatigue could set in at many companies following an intense and extended period of preparation to comply with the new data protection rules write PwC's PAT MORAN and RODESH GOVENDER. However, the implementation needs to be treated as the first step in a long road to ensure companies not only comply with the new rules but leverage them to improve client trust and instill privacy into company culture, they write.

MANY organisations have been working tirelessly over the last 12 to 24 months to shape up their General Data Protection Regulation (GDPR) Programmes and compliance positions to reach a state of readiness deemed passable by their Supervisory Authorities, such as the Data Protection Commission (DPC) in Ireland. However, as the compliance deadline of 25 May 2018 has come and gone, companies find themselves winding down their programmes and reallocating resources to the next alarming regulation coming into effect or to switch focus to recoup funding by focussing on endeavours with a direct return on investment. However, the reality is that the reality of GDPR is far from over and for many, the journey has just begun.

Why will GDPR continue to be important after May 2018?

GDPR has a long history and replaces previous privacy regulations, namely 1995 European Union Privacy Directive. The focus and impact of privacy concerns have evolved over time, and in turn the need for regulating the treatment of personal information have equally evolved. As GDPR is not the first privacy regulation, it is unlikely to be the last. Given that GDPR has received much attention with legal actions already pursued against large corporates, it is likely to continue to evolve and receive newer enhanced versions over time. Additionally, non-EU territories are likely to adopt a GDPR equivalent to meet their own privacy protection concerns or formulate bespoke rule sets for their territories. For multi-national corporates, finding a balance between multiple overlapping and inter-weaving privacy regulations whilst attempting to achieve a cost efficient method to achieve overarching compliance will require a forward thinking approach.

What should you be doing after May 2018?

Complete a Gap Assessment and Start Again: Many organisations have dedicated a large amount of resources to building a compliance ready GDPR programme. It is important to note that GDPR compliance requires continual compliance and ongoing effort. Understand the short comings of your current programme by doing a gap assessment against your desired target state and re-start parts of your programme to fill in key gaps and focus on priorities.


Pat Moran


Rodesh Govender

Look Past the DPO: Many focus on the requirement on whether to have a DPO in place. But it is much more important to have the supporting privacy structure, roles and responsibilities in place across the organisation to empower the DPO to affect changes and ensure organisational compliance.

Stand Out: It is advised to treat Privacy as an opportunity. Our customers looks to us to fulfil promises made and instil trust. Recent privacy breaches and press attention of large multi-national corporates have shaken this trust across industries. GDPR ties key privacy principles together and can be used of an excellent starting point for building that trust between customer of service provider.

Privacy Culture: To effectively affect change and see the most out of the resources allocated to your GDPR Programmes, it is important to embed the principles of GDPR into the culture of the organisation. This will ensure that as time moves on and as GDPR evolves and other privacy regulations come into effect, the effort required to incorporate these additional requirements will become minimal.

Wait and See: It is important to stay close to developments of GDPR legal actions and decisions made within the finance industry, within Ireland and Europe in general. By understanding the trends, outcomes and precedents set by others, your organisation has the opportunity to close any potential compliance gaps before receiving a similar outcome.

"Given that GDPR has received much attention with legal actions already pursued against large corporates, it is likely to continue to evolve and receive newer enhanced versions over time."

PwC Ireland have assisted many organisations over the last 24 months in their GDPR compliance, across a multitude of industries and sizes and varying starting positions, and it clear in each case that reaching the milestone of creating a readiness position by 25 May 2018 is but the first step on a long road to an effective and compliant privacy programme.

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