EY Structured Finance

Minds made for building financial services

EY

Building a better working world

"Reshaped by regulation and economic growth, the global securitisation market is experiencing a revival."

Introduction

Reshaped by regulation and economic growth, the global securitisation market is experiencing a revival. The structured finance sector has seen an increase in investor demand – and Irish special purpose vehicles (SPVs) play a central role.

Irish SPVs are utilised for a whole variety of financial transactions, but also as investment vehicles for private equity investments.

Once certain conditions are met, the SPV qualifies for particular tax treatment under section 110 of the Irish tax code.

A 'qualifying company' under section 110 is one which:

- Is resident in Ireland for tax purposes;
- Acquires qualifying assets (set out overleaf);
- Carries on in Ireland the business of holding and / or managing qualifying assets and apart from activities ancillary to that, carries on no other activities;
- Satisfies a day one test of a minimum value of €10 million in relation to the first transaction entered into resulting in the holding and/or management of qualifying assets; and
- Enters into all transactions by way of a bargain at arm's length (other than any profit participating notes); and
- Provides a notification to the Irish tax authorities in the prescribed format within the time limits outlined in the legislation.

What type of activities are section 110 companies involved in?

Section 110 caters for a wide variety of activities. A section 110 company is permitted to hold or manage 'qualifying assets', either directly or indirectly through a partnership. The definition of qualifying assets is widely drawn, relating mainly to financial assets but also to certain exchange-traded commodities as well as plant and machinery. See page three for complete definition.

Some of the typical uses of section 110 companies are:

- Securitising all types of financial assets in classic securitisation financing transactions. Examples include the securitisation of mortgage receivables, loan portfolios, lease portfolios, insurance and reinsurance contracts and life settlement contracts.
- Securitisation of synthetic financial instruments/ portfolios. Examples include ABS, CDOs and CLOs.
- Asset financing/refinancing programmes for aircraft/shipping groups.
- Financing of trade receivables securitisation programmes across jurisdictions by multinational groups.
- Holding of asset portfolios by asset managers and private equity groups for asset segregation purposes.
- Recent activity has included the securitisation of substantial European distressed debt portfolios by private equity groups and other investors.

Qualifying assets

A financial asset is defined as including (but not being limited to) the following:

- Shares, bonds and other securities.
- Futures, options, swaps, derivatives and similar instruments.
- Invoices and all types of receivables.
- Obligations evidencing debt (including loans and deposits).
- Leases and loan and lease portfolios.
- Bills of exchange, commercial paper, promissory notes and all other kinds of negotiable or transferable instruments.
- Certain types of carbon offsets.
- Contracts for insurance and contracts for reinsurance.
- Commodities (i.e. tangible assets dealt on a recognised commodity exchange).
- Plant and machinery.
- Hire purchase contracts.
- Acceptance credits and all other documents of title relating to the movement of goods.

Tax treatment of section 110 companies

- A section 110 company is fully embedded in the Irish code and taxable at a rate of 25% on its profits.
- There is certainty of tax treatment through transparent tax legislation which does not rely on a system of tax rulings for efficiency.
- Corporation tax deduction is specifically allowed for the payment of profit-dependent interest by the section 110 company in certain circumstances. There are no thin capitalisation rules to limit the deductibility of interest paid by a section 110 company.
- It is taxed on accounting profit which can be prepared in non-Euro currency. In addition, there is long-term cash flow certainty by using 'frozen GAAP' for Irish tax reporting purposes. This eliminates risk associated with ever-changing accounting standards.

Other important factors include:

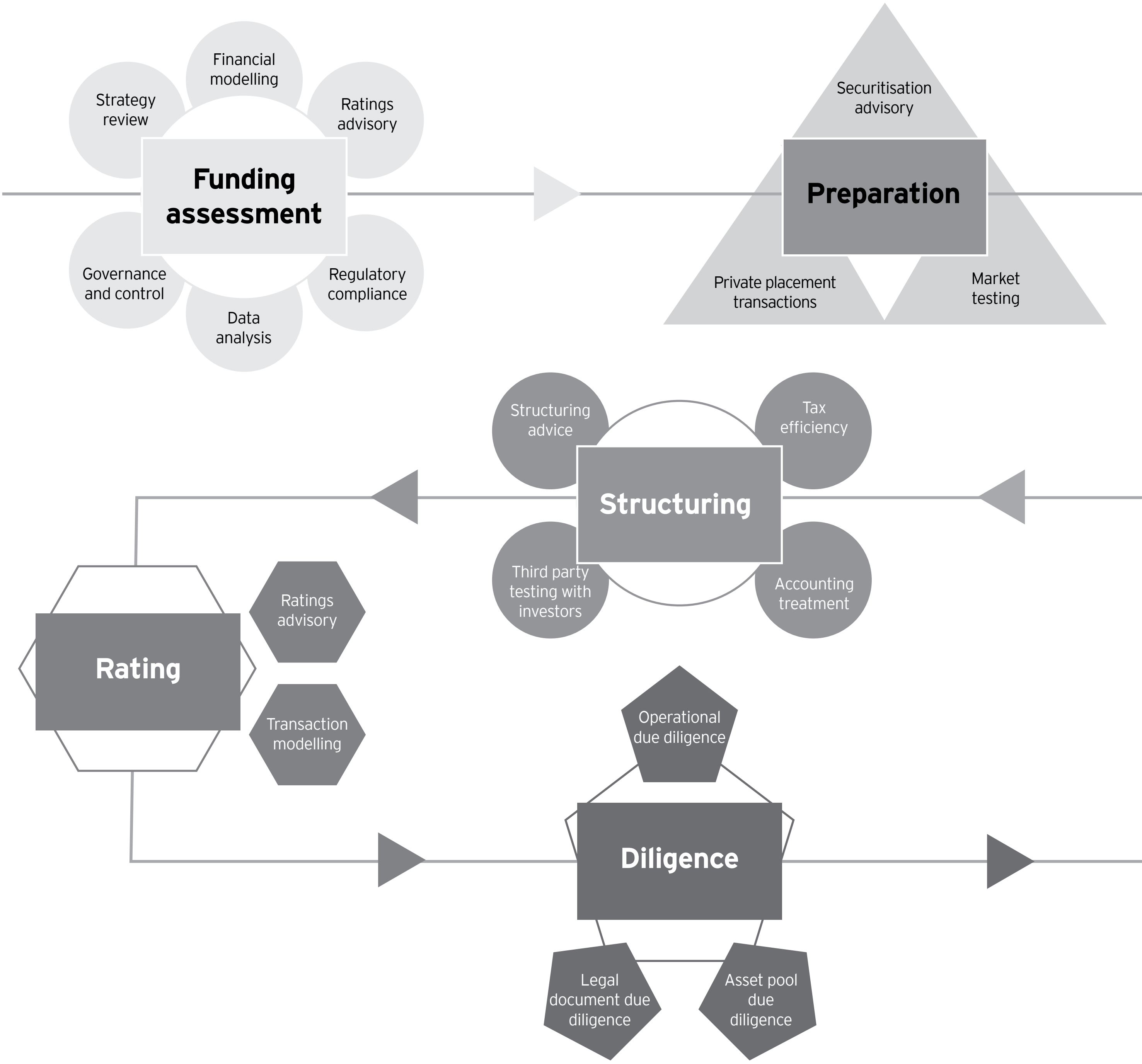
- A section 110 company, as an Irish- resident company which is subject to tax in Ireland, has access to Ireland's wide treaty network.
- Broad exemptions from withholding tax on interest are available.
- Ireland has no net wealth tax.
- Securities issued by a section 110 company are exempt from Irish stamp duty.

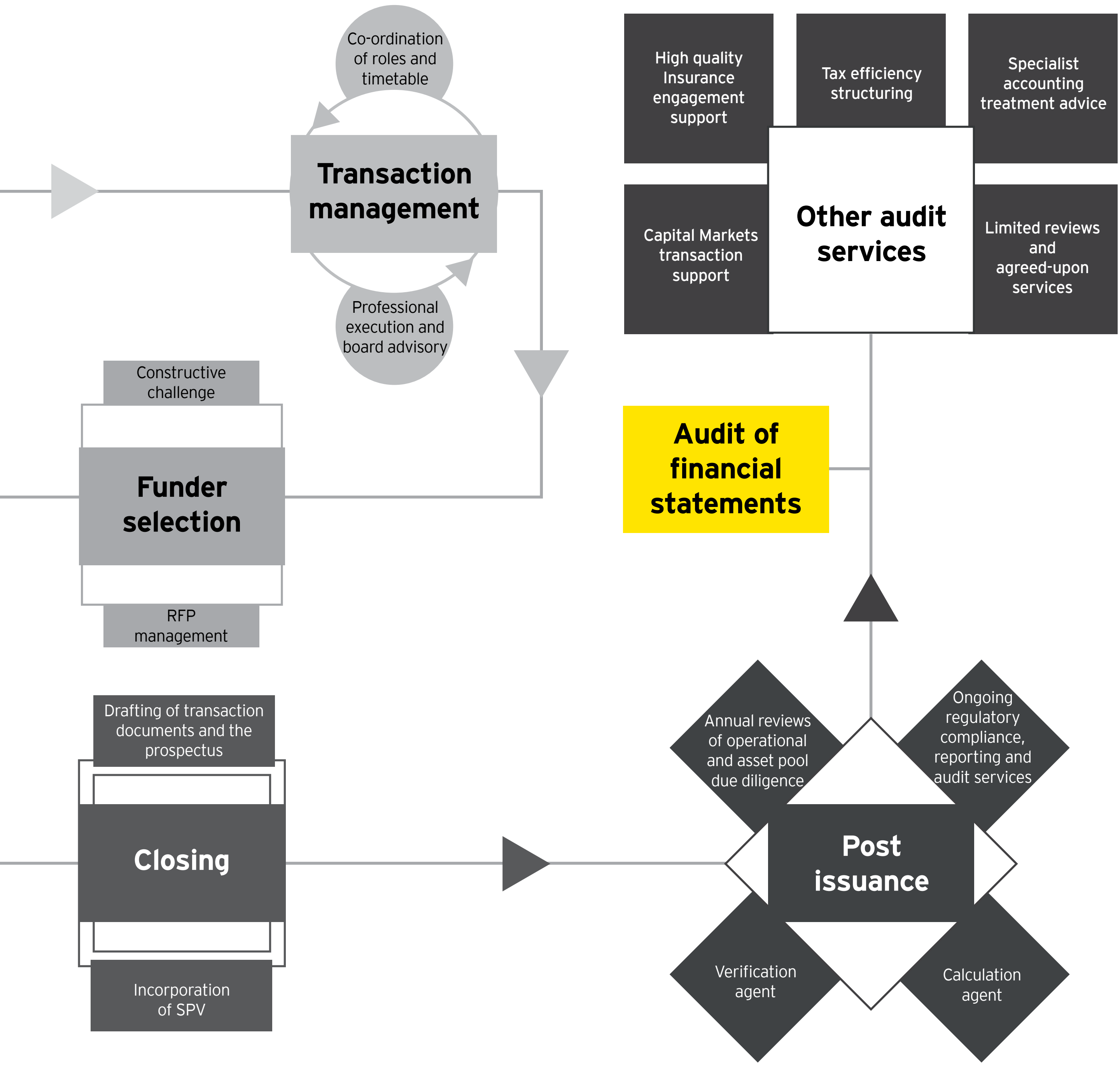
Why Ireland?

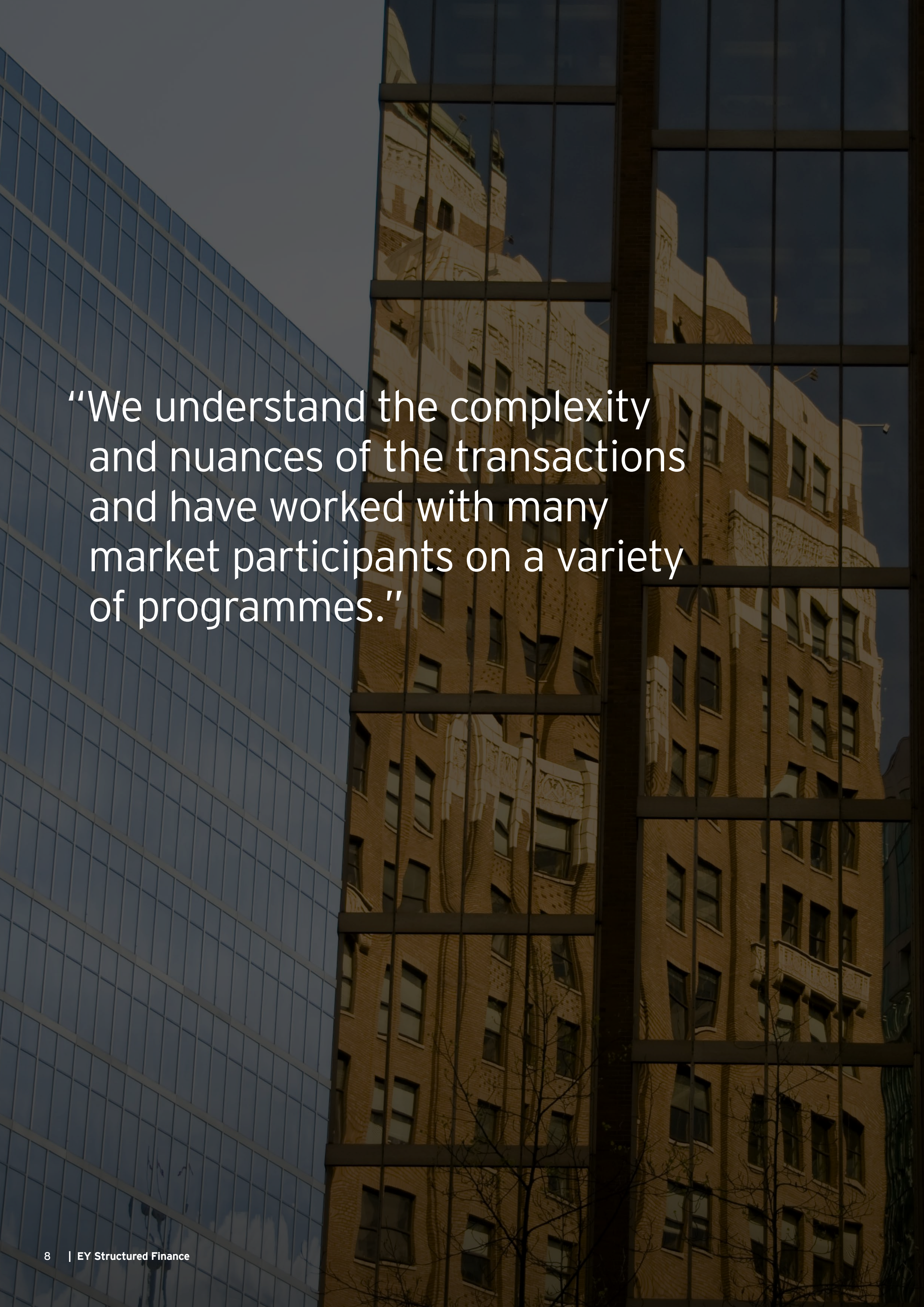
Ireland has much to offer as a securitisation location. The Irish industry is built upon rock-solid foundations with features that include:

- A well-developed legal and regulatory regime in a common law jurisdiction.
- A supportive government that has consistently encouraged investment in this sector, and continues to introduce measures to boost Ireland's attractiveness as a location for structured finance.
- The availability of skilled professionals with extensive experience in the set-up and maintenance of SPV structures (particularly in the corporate services, tax, legal and accountancy fields).
- As an English speaking country with a favourable time zone, Ireland's business environment is an ideal setting for the structured finance industry.
- Many international and global financial services firms have operations in Ireland and provide back and middle office support to securitisation vehicles.
- Ireland is an ideal location for listing debt securities. A securitisation vehicle can list debt on a wide range of global exchanges, including the Irish Stock Exchange (ISE). The ISE is one of the largest European exchanges for the listing of asset-backed securities and debt securities. The ISE listing process is comparatively straightforward and timely.
- An established onshore EU location and OECD member, Ireland is also a full Eurozone member. Operational requirements in Ireland are straightforward (e.g. may not necessarily need a bank account, direct employees etc).
- Cost efficient jurisdiction involving:
  - No minimum profit.
  - Competitive service provider and audit costs.
  - Competitive and sophisticated legal market.

Support through the securitisation lifecycle




Co-ordination of roles and timetable
Transaction management
Professional execution and board advisory
Constructive challenge
Funder selection
RFP management
Drafting of transaction documents and the prospectus
Closing
Incorporation of SPV
High quality Insurance engagement support
Tax efficiency structuring
Specialist accounting treatment advice
Capital Markets transaction support
Other audit services
Limited reviews and agreed-upon services
Audit of financial statements
Annual reviews of operational and asset pool due diligence
Ongoing regulatory compliance, reporting and audit services
Post issuance
Verification agent
Calculation agent



"We understand the complexity and nuances of the transactions and have worked with many market participants on a variety of programmes."

Why EY?

1

EY has securitisation services that cover every asset class and every aspect of the securitisation market.

2

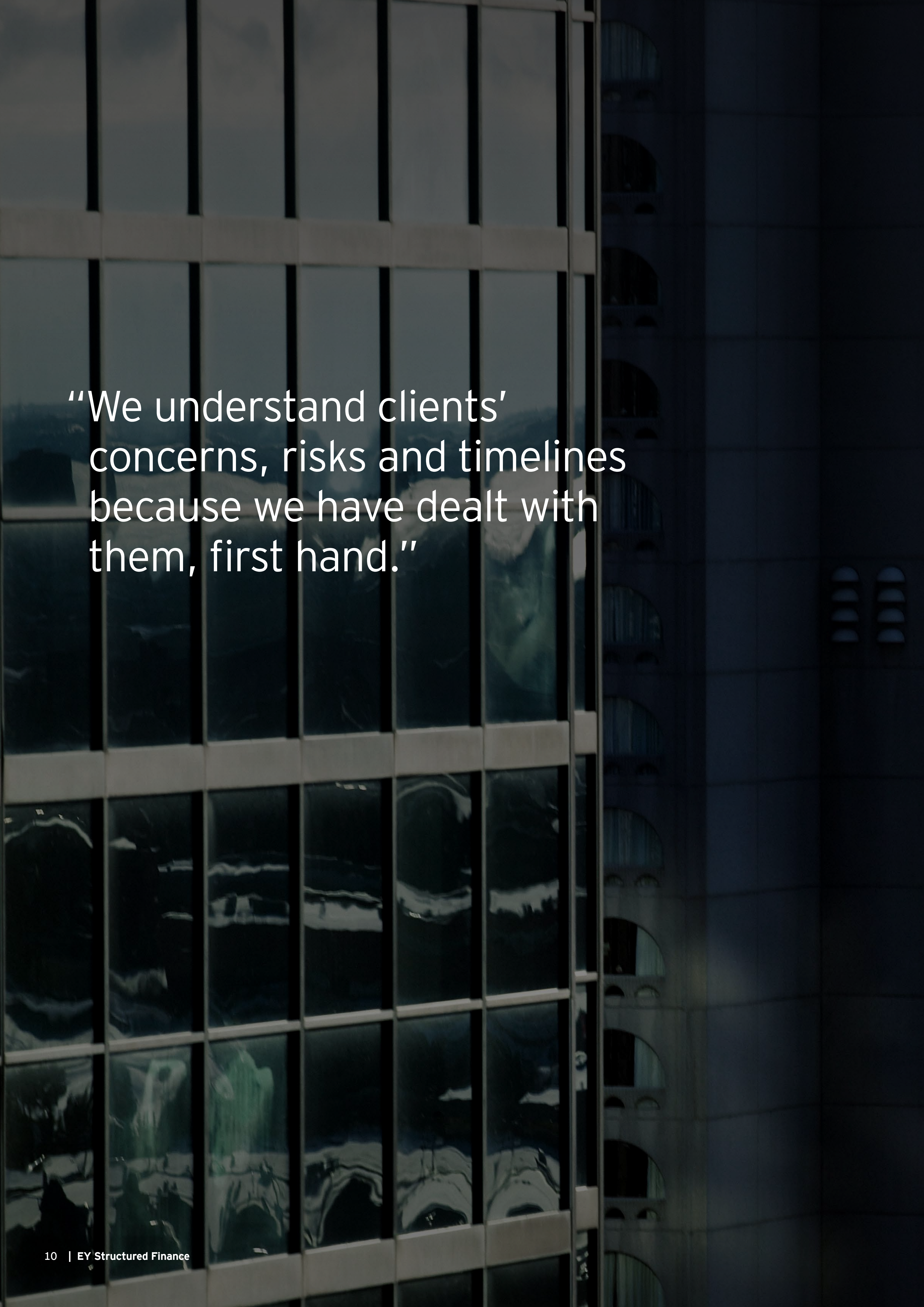
We understand the complexity and nuances of the transactions – from modelling requirements to unique collateral issues – and have worked with many market participants on a variety of programmes, both pre and post financial crisis.

3

EY's unified services allow people and ideas to come together to develop leading practice, thought leadership and insights for the benefit of the clients. They allow professionals to share leading practices across asset classes throughout the securitisation life cycle.

4

Engagement teams are led and staffed by dedicated structured finance professionals, with strong credentials, relevant experience and insights into leading practices in the market.



"We understand clients' concerns, risks and timelines because we have dealt with them, first hand."

EY Structured Finance Leaders

The dedicated team of nearly 50 full-time professionals has extensive securitisation knowledge and experience.

EY professionals are seasoned in addressing the varying needs of issuers, underwriters and investors in the ABS, RMBS, CMBS, CDO and collateralised debt obligation markets, and have a combination of industry-specific skills that allow us to address the complex issues associated with securitisation transactions.

We have honed these skills by working on transactions with the financial institutions we serve, along with their underwriters - we understand clients' concerns, risks and timelines because we have dealt with them, first hand.

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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