Irish Stock Exchange
28 Anglesea Street
Dublin 2

Telephone: (+353 1) 617 4200
Fax: (+353 1) 677 6045
Web site: www.ise.ie
E-mail: info@ise.ie
DX 97, Dublin

30th May 2008

Green Paper Consultation
Pensions Policy Unit
Department of Social and Family Affairs
Aras Mhic Dhiarmada
Store Street
Dublin 1

Dear Sir/Madam,

Re: Pensions Green Paper Submission

The Irish Stock Exchange (ISE) welcomes the Government's initiative to stimulate debate with regard to possible approaches to pension development in Ireland through its request for submissions under the Green Paper on Pensions.

We have noted the Government's concerns with regard to the sustainability of the existing system in the long-term. As outlined in the Green Paper, given projected changes in population demographics, there is a risk of a spending mismatch between projected increases in the public pension system's spending obligations and its ability to meet those demands given projected decreases in the ratio of workers to pensioners.

The Exchange shares the view expressed in the Green Paper that a potential solution is the encouragement of increased levels of private saving for retirement which would contribute towards financing and reducing the size of the projected funding gap. In this regard we believe that there should be a role for the ISE in the provision of innovative service offerings in an Irish context.

Other jurisdictions globally have already partnered with national exchanges to provide innovative solutions to the marketplace. In Denmark, the statutory Danish Labour Market Supplementary Pension scheme, in partnership with the Copenhagen Stock Exchange (CSE), offers a scheme for pension saving through investment by individuals in investment funds which are available for trading on a daily basis on the CSE. Trades are executed based on the choices of individual account holders.

The New Zealand Government, in partnership with the New Zealand Exchange (NZX) and employers, implemented a service offering in 2007 aimed at encouraging increased levels of private saving for retirement. "KiwiSaver" is a voluntary scheme, with incentives provided by the New Zealand Government and employers, which is designed to increase the national retirement savings pool. Under the scheme a wide range of registered providers make investment fund products, with various investment strategies, available to participants.

Individuals are empowered to choose a provider and the investment fund(s) of their choice based on individual preferences. The investment funds are managed on a global basis and across asset classes (e.g. equities, fixed income, commodities, property) but the scheme does benefit the New Zealand capital markets in terms of increasing the national savings pool and therefore the level of assets available for allocation to publicly quoted New Zealand companies. On 7th May 2008, less than a year following launch, the KiwiSaver initiative announced that membership was in excess of 600,000 far exceeding initial projections (which were for 270,000 members after the first year). The scheme automatically enrolls new employees who must actively opt-out thereafter if desired.

Smartshares Limited, a wholly owned subsidiary of NZX, manages a suite of five Exchange Traded Funds (ETFs) and is a registered provider for the purpose of the KiwiSaver initiative. The five ETFs provide investment exposure to New Zealand and Australian equities and are admitted to trading on NZX. Depending on an individual's preferences up to 100% of savings with Smartshares under the KiwiSaver initiative may be invested in its ETFs. Smartshares explicitly states that the benefits of ETFs to savers include cost transparency with one, low, all-inclusive fee charged to investors. Furthermore it notes that small differences in fees and costs can have a substantial impact on long-term returns thereby impacting available funds at retirement.

We believe that a similar type of scheme, tailored to the Irish market, would be effective in encouraging increased levels of private saving for retirement.

The ISE is very focused on bringing to individual, and institutional, investors new traded products via the Exchange's world class infrastructure, this product diversification includes ETFs and Exchange Traded Commodities (ETCs) and we aim to roll-out an ETF segment on ISE Xetra®, our electronic trading platform, before year end. ETFs are efficient, low-cost, passive investment instruments which provide investment exposure to global equity markets, sectors and other asset classes (e.g. fixed income, commodities) and as such are very suitable for the allocation of retirement investment assets in terms of portfolio diversification and cost efficiency. They are very well established as a preferred asset class for many pension schemes including very large state schemes such as that of Norway.

In addition, ETFs as an asset class continue to grow at an extremely rapid rate globally both in terms of assets under management (AUM) and in the number of ETFs available to investors. Morgan Stanley, in its most recent global review of the ETF marketplace, now estimates that global AUM is in excess of $800 billion constituting an increase of 21% over the past year. It also estimates that the total number of ETFs globally grew by 42% over the same period with 1,302 individual products available at the end of April 2008. More specifically European AUM now stands at $154 billion with 479 individual products. Morgan Stanley, which forecasts that the bulk of growth in ETFs during 2008 will continue to come from the US and Europe, has also estimated that global AUM will exceed $2 trillion in 2011.

As the ISE broadens its ETF offering in the manner described above there may be potential to create an easily accessible, low-cost, online private retirement savings service offering with individual account holders empowered to invest funds directly into securities of their choice which are admitted to trading on the ISE including ETFs, ETCs and Irish and UK equities.

On a separate, but related matter the ISE has recently submitted its recommendations to the Commission on Taxation re the benefits of the abolition of Stamp Duty on Irish securities (copy included at Appendix I). The potential service offering described above, combined with a specific exemption from Irish Stamp Duty for individual account holders, would be innovative in an Irish context, would provide a specific incentive to encourage take-up and therefore would have the potential to materially increase pension participation rates.

The Exchange emphasises that this is a preliminary outline of one avenue for development of the pensions system in Ireland. A full feasibility study would be required to establish a more detailed proposal, the likely levels of demand for such a service, its economic impact and to benchmark it internationally against other similarly structured schemes.

We are interested in discussing opportunities for ISE involvement in the development of the domestic pensions system based around the type of structure outlined above. We believe that such a scheme has the potential to contribute to the sustainability of the Irish pension system in the long-term by encouraging increased levels of private savings. Should it prove successful it also has the potential to improve the adequacy of pension funds at retirement and simultaneously modernise and render more flexible and responsive the pensions system by increasing competition, reducing costs and improving participation rates.

I look forward to hearing from you with regard to this proposal and to discussing the potential for any ISE involvement in the development of the domestic pensions system.

Yours faithfully,

Brian Healy

Brian Healy
Director of Traded Markets, Development, Operations