Legal Update

Update regarding Irish Property QIAIFs

Irish funds to be authorised as Qualifying Investor AIFs (“QIAIFs”) which are proposing to invest in Irish property assets are now required to make a pre-submission to the Central Bank of Ireland (the “Central Bank”) before an application for authorisation can be filed. These pre-submissions must reflect the Central Bank’s macroprudential policy framework for Irish property funds.

Background

The Central bank operates a “fast Track” authorisation process for QIAIFs whereby they can be authorised in only 24 hours. However, in a recent update it clarified that certain categories of QIAIF are required to make a pre-submission before applying for authorisation. QIAIFs proposing to invest in both Irish property and crypto-assets are required to make such a submission. The Central Bank has reserved the right to amend the list of QIAIFs which are subject to this obligation.

Macroprudential policy framework

The Central Bank has identified excessive leverage and liquidity mismatch as potential sources of financial vulnerability for property funds which could lead to amplification of future shocks and commercial real estate market dislocation. In their consultation paper CP145, the Central Bank proposed the introduction of measures to limit the ratio of property funds’ total debt to their total assets (the “leverage limit”) and Central Bank Guidance on liquidity timeframes for property funds.

The leverage limit will be set at 60% and the limit will apply to Irish funds with direct or indirect investment in Irish property assets, subject to a materiality threshold of 50%.

The Central Bank Guidance sets out that generally property funds should provide for a liquidity timeframe of at least 12 months. The liquidity timeframe will assist in ensuring that the redemption terms of property funds align with the liquidity of the assets held in both normal and exceptional circumstances, and in a manner consistent with the fair treatment of investors.

Information to be included in pre-submission

The information which should be included in the pre-submission includes the following:-

- Copies of the prospectus/supplement(s), as relevant;
- A completed model portfolio template which should include a line by line breakdown of the properties and related securities/instruments that the QIAIF intends to utilise. An aggregate percentage per asset class is not acceptable. The QIAIF should include any available details on the specific properties which will be invested in;
- An indication of the expected target market of the QIAIF;
- Details of the maximum LTV/leverage limits that will apply including any debt at SPV/intermediate investment vehicle level. These leverage limits should reflect the Central Bank’s macroprudential policy framework for Irish property funds as set out above with the rationale for such limits;
- Details of the liquidity status of the QIAIF. The Central Bank will only authorise property funds if they are structured as (i) closed-ended or (ii) open-ended with limited liquidity as per the Central Bank’s AIF Rulebook; and
- Details of the redemption provisions that will apply. Generally, property funds should provide for a liquidity timeframe of at least 12 months, taking into account the nature of the assets held.

The Central Bank may request other information in the course of assessing a pre-submission, including certain confirmations from the management company or the board of the Qualifying Investor AIF if required.

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