



FINANCIAL SERVICES

The Central Bank's restrictions on Loan Originating Qualifying AIFs have been eased

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The rules restricting Loan Originating Qualifying AIFs engaging in activities other than lending and related operations have been amended by the Central Bank.

The revised Alternative Investment Fund (AIF) Rulebook was published on 3 January 2017 by the Central Bank of Ireland (Central Bank). It included an important change to the requirements for Loan Originating Qualifying Investor AIFs (LQIAIFs).

The AIF Rulebook had previously required a LQIAIF to “limit its operations to the business of issuing loans, participating in loans, participations in lending and operations **directly arising** therefrom, including handling assets which are realised security, to the exclusion of all other commercial business.”

This meant LQIAIFS could not invest in other assets such as debt or equity securities and therefore loan managers could not combine loans with other asset classes as part of their credit strategy. This was seen by industry participants as overly restrictive and the reason why, to date, so few LQIAIFS have been launched in Ireland.

The AIF Rulebook now states that LQIAIFs “shall limit its operations to the business of issuing loans, participating in loans, participations in lending and to operations **relating thereto** including **investing in debt and equity securities of entities or groups** to which the loan originating Qualifying Investor AIF lends or which are held for treasury, cash management or hedging purposes.”

It is hoped that this amendment will make LQIAIFs more attractive to international fund managers now that they are permitted to make other investments which ought to enable investment returns to be enhanced. Another positive is that LQIAIFs will now be consistent with other EU regulated funds like European Long Term Investment Funds and in some instances European Venture Capital Funds and European Social Entrepreneurship Funds, which have similar rules in relation to assets that are not loans.

The amendment to the AIF Rulebook took effect on 3 January 2017. The Central Bank did invite comments on the amended LQIAIF regime and will issue further updates on developments to the LQIAIF regime should they arise.

If you would like further information, please contact Trevor Dolan at tdolan@lkshields.ie.

About the Author