

Central Bank of Ireland Clarifies Rules on Alternative Investment Funds Acting as Guarantors

April 2025

On 7 March 2025, the Central Bank of Ireland (“**Central Bank**”) published an updated version of its questions and answers document on the implementation of the Alternative Investment Fund Managers Directive (“**AIFMD Q&A**”). The updated guidance provides an important clarification on the application of the prohibition on qualifying investor alternative investment funds (“**QIAIFs**”) acting as guarantors for third parties.

The Central Bank has confirmed that guarantees are permissible in respect of investments and / or intermediate vehicles for such investments in which the QIAIF has a direct or indirect economic interest subject to a number of important safeguards and investor disclosures. The applicable conditions are set out in the table on the right.

Conditions for AIFs to Act as Guarantors for Third Parties (ID 1160)	
1	The Alternative Investment Fund Manager (“ AIFM ”) must determine that the arrangements are in the best interests of both the QIAIF and its investors and are ancillary to the QIAIF’s predominant investment strategy.
2	The AIFM (or in the case of a non-Irish AIFM or registered AIFM, the QIAIF) and the QIAIF’s depositary must confirm that the proposed transaction is at arm’s length and in the best interests of investors.
3	The prospectus must disclose that the QIAIF can provide a guarantee in respect of investments and / or intermediate vehicles in which the QIAIF has a direct or indirect economic interest, along with any associated material risks.
4	The liability of investors in the QIAIF under such arrangements (above the value of their current holdings of shares or other interests in the QIAIF) must be limited to the amount, if any, unpaid on the shares or other interests held by them.
5	The QIAIF must comply with the Central Bank’s requirements in relation to investing through a co-investment vehicle that includes other third-party investors and is not a wholly owned subsidiary of the QIAIF.
7	The AIFM must comply with the relevant requirements under the AIFMD in relation to leverage and risk management, including regularly conducting stress tests and other applicable requirements which must cover market risks and any resulting impact, including margin calls, collateral requirements and credit lines.



Two further clarifications have been provided in the updated AIFMD Q&A:

- The meaning of financial institutions in the AIF Rulebook is aligned with the revised AIFMD 2.0 loan origination rules. The prohibition in the AIF Rulebook on lending to “financial institutions” should therefore be interpreted as prohibiting lending to:
 - a credit institution or a financial institution or an ancillary services undertaking within the meaning of Directive 2006/48/EC (the CRD IV Directive);
 - an insurance undertaking, reinsurance undertaking or an insurance holding company within the meaning of Directive 2009/138/EC (the Solvency II Directive);
 - an investment firm within the meaning of Directive 2014/65/EU (the MiFID II Directive); or
 - a mixed financial holding company within the meaning of Directive 2002/87/EC (the Financial Conglomerates Directive).
- The Central Bank has also clarified that the prohibition on lending to persons to invest in equities or other traded investments or commodities does not prevent lending to a borrower with the intention of acquiring a controlling interest in a target company.

Next Steps

These welcome clarifications and updates to the AIFMD Q&A precede a Central Bank consultation on a wider review of the AIF Rulebook, which is expected to take place later this year. The conduct of this review is consistent with the **report** published by the Irish Department of Finance following its Funds Sector 2030 consultation, which recommended that the Central Bank should review its AIF Rulebook and associated requirements that impact the establishment of private asset funds in Ireland.

Please get in touch with your usual Asset Management and Investment Funds Department contact or any of the contacts listed in this publication should you require further information in relation to the material referred to in this update.

Full details of the Asset Management and Investment Funds Department, together with further updates, articles and briefing notes written by members of the Asset Management and Investment Funds team, can be accessed at www.matheson.com.

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