Matheson

Central Bank of Ireland Introduces Macroprudential Measures for Property Funds

November 2022

The Central Bank of Ireland ("**Central Bank**") has introduced macroprudential measures for property funds (the "**Framework**"), which include limits on leverage and guidance on liquidity timeframes ("**Guidance**"). This follows a consultation issued at the end of 2021 ("**CP145**").

What's the rationale?

Announcing the publication of the Framework, the Central Bank notes that Irish-authorised funds investing in Irish property have become a key participant in the Irish commercial real estate ("**CRE**") market. Due to the growth of these funds, the resilience of this form of financial intermediation is more significant now for the functioning of the overall CRE market than it was a decade ago. There is also a greater potential for adverse macro-economic or financial stability shocks due to dislocations in the CRE market.

The main risk that the Central Bank's measures seek to guard against relates to the potential that financial vulnerabilities in the property fund sector could lead to forced selling behaviour in times of stress. The Central Bank points to excessive leverage and liquidity mismatch as potential sources of vulnerabilities in property funds.

What are the measures?

The Central Bank has decided to introduce macroprudential measures by way of:

- the imposition of a leverage limit pf 60% for property funds on the ratio of the fund's total debt to total assets. This applies to funds that invest 50% or more of their assets under management ("**AUM**") directly or indirectly in Irish property; and
- Central Bank guidance on liquidity timeframes for such funds. The Central Bank generally expects property funds to have a minimum liquidity timeframe of at least 12 months, taking into account the nature of the assets held.

The Framework provides that funds investing at least 80% of AUM in social housing will not be in scope of the leverage limit, subject to a number of criteria.

The Central Bank states that the final Framework and Guidance takes into account the feedback received to CP145, the majority of which opposed the introduction of leverage limits. Alongside the Framework, the Central Bank has published its feedback statement in response to CP145. It is welcome that the Central Bank has increased the leverage limit to 60% from the 50% proposed in the consultation, and that it also extended the implementation period from three years to five years.

When?

A five year implementation period will allow for the gradual and orderly adjustment of leverage in existing property funds. Existing funds will have 18 months to take appropriate actions in response to the Guidance. The Central Bank will now only authorise new funds if they meet the 60% leverage limit and it expects that property funds authorised after 24 November 2022 (the date of publication of the Guidance) will comply with the Guidance immediately.

What's next?

The Central Bank has indicated that it will closely monitor the adoption of the measures and their impact and will conduct a periodic review of the Framework. It does not, however, intend to recalibrate the leverage limit regularly. There will be flexibility to respond to material changes in the macro-financial environment, allowing the Central Bank to temporarily remove or tighten the leverage limit depending on market conditions.

The Central Bank notes that these are the first macroprudential policy measures to be introduced under the non-bank pillar of the Central Bank's macroprudential policy framework. In light of the growth of the non-bank sector, including the investment funds sector, and given that Ireland has one of the largest investment fund sectors in the world, the Central Bank states that it is prioritising the development of the macroprudential framework for the non-bank sector in order to safeguard the resilience of this form of financial intermediation. There may, therefore, be further initiatives in the future in relation to the macroprudential regulation of investment funds.

Contacts

Tara Doyle
Partner
T +353 1 232 2221
E tara.doyle@matheson.com

Michael Jackson
Managing Partner
T +353 1 232 2000
E michael.jackson@matheson.com

Dualta Counihan
Partner
T +353 1 232 2451
E dualta.counihan@matheson.com

Shay Lydon
Partner
T +353 1 232 2735
E shay.lydon@matheson.com

Philip Lovegrove
Partner
T +353 1 232 2538
E philip.lovegrove@matheson.com

Liam Collins
Partner
T +353 1 232 2195
E liam.collins@matheson.com

Elizabeth Grace
Partner
T +353 1 232 2104
E elizabeth.grace@matheson.com

Oisin McClenaghan
Partner
T +353 1 232 2227
E oisin.mcclenaghan@matheson.com

Michelle Ridge
Partner
T +353 1 232 2758
E michelle.ridge@matheson.com

Barry O'Connor
Partner
T +353 1 232 2488
E barry.oconnor@matheson.com

Donal O'Byrne
Partner
T +353 1 232 2057
E donal.o'byrne@matheson.com

Catriona Cole
Partner
T +353 1 232 2458
E catriona.cole@matheson.com

Anthony Gaskin
Partner
T +353 1 232 3043
E anthony.gaskin@matheson.com

Brónagh Maher
Professional Support Lawyer
T +353 1 232 3757
E bronagh.maher@matheson.com

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.

Matheson

DUBLIN
70 Sir John Rogerson's Quay,
Dublin 2
Ireland

T: +353 1 232 2000
E: dublin@matheson.com

CORK
Penrose One,
Renrose Dock,
Cork, T23KW81

T: +353 21 465 8200
E: cork@matheson.com

LONDON
Octagon Point,
5 Cheapside,
London EC2V 6AA

T: +44 20 7614 5670
E: london@matheson.com

NEW YORK
200 Park Avenue
New York, NY 10166
United States

T: +1 646 354 6582
E: newyork@matheson.com

PALO ALTO
530 Lytton Avenue
Palo Alto, CA 94301
United States

T: +1 650 617 3351
E: paloalto@matheson.com

SAN FRANCISCO
156 2nd Street
San Francisco CA 94105
United States

T: +1 650 617 3351
E: sf@matheson.com