Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Guidance on Redemption Terms for Property Funds

November 2022

This Guidance is relevant to Alternative Investment Funds (AIFs) domiciled in Ireland, authorised under domestic legislation, and investing fifty per cent or more directly or indirectly in Irish property assets , hereafter termed 'property funds'. It is supplementary to the provisions of the AIF rulebook.

Regulation 18 of the European Union (Alternative Investment Fund Managers) Regulations (S.I. No. 257/2013) (the Irish AIFM Regulations) requires, inter alia, that an AIFM shall ensure that, for each AIF that it manages, the investment strategy, the liquidity profile and the redemption policy are consistent. In order to further mitigate vulnerabilities stemming from liquidity mismatch in property funds, AIFMs managing property funds should take into account the following:

1. The Central Bank will not authorise property funds if they are not structured as (i) closed-ended or (ii) open-ended with limited liquidity as per the Central Bank's AIF Rulebook. During the design phase for such property funds, the Board of the AIFM should carefully consider and document what structure may be most appropriate, taking into account the nature of the assets held, whether a secondary market exists for such assets and whether redemption requests could be met without recourse to selling large portions of the property fund's portfolio.

2. Given the highly illiquid nature of property assets, the Central Bank expects that the redemption policies of property funds provide for a significant timeframe between the dealing deadline and payment of redemption proceeds (i.e. the liquidity timeframe). When designing their redemption terms, AIFMs must take into account the liquidity of property assets under both normal and stressed market conditions. It can take between six and seven months to sell an Irish property asset under normal market conditions. This timeframe is likely to be higher during periods of market stress and/or if a number of property funds are trying to sell similar assets at the same time.

3. The Central Bank recognises that there are a number of means through which liquidity mismatch in property funds could be mitigated. However, liquidity management tools should be considered as complementary to effective redemption policies (and not a replacement for appropriate alignment of redemption terms with the liquidity profile of a funds' assets). AIFMs of property funds should not place undue reliance on the availability of liquid asset buffers to manage liquidity risk, given that this may amplify first-mover advantage dynamics.

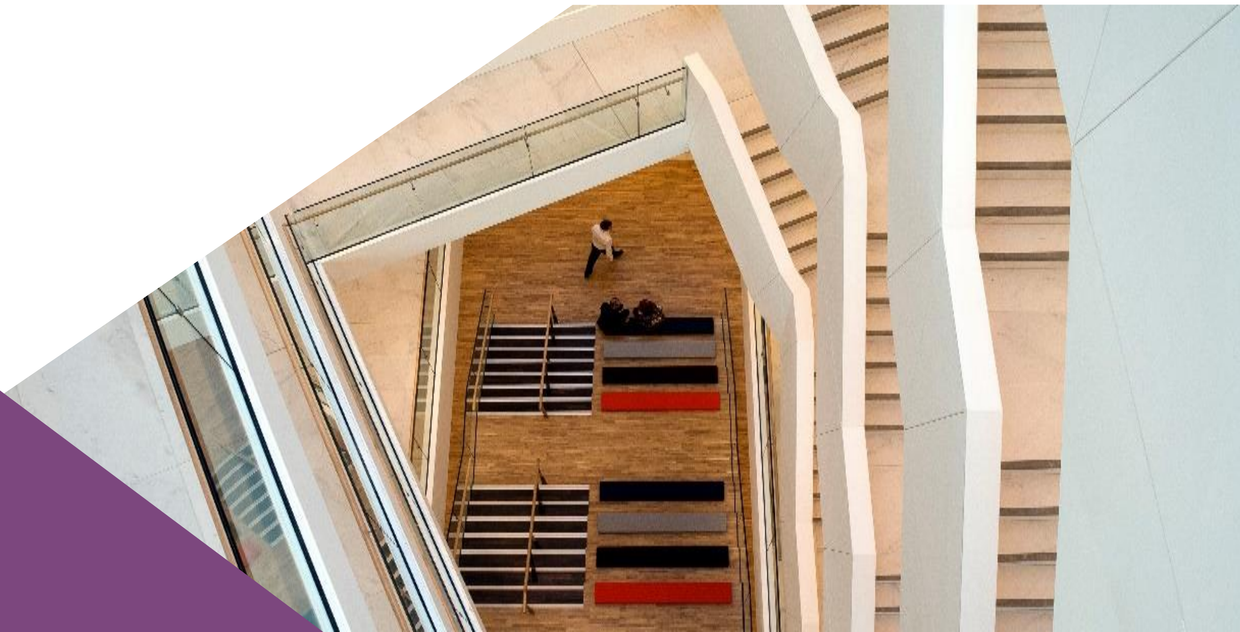
4. Property funds should have liquidity timeframes that explicitly allow for a significant timeframe between the point at which an investor must submit a redemption request for a particular dealing day (notification point) and the point at which investors will expect to receive redemption proceeds from the fund (settlement point). Generally, property funds should provide for a liquidity timeframe of at least 12 months, taking into account the nature of the assets held.

5. Such a liquidity timeframe will assist in ensuring that the redemption terms of the property fund 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.

6. Subject to prudent liquidity management by the AIFM, the liquidity timeframe may not be required where (i) the designation of a redemption dealing day is at the discretion of Directors (and not at the option of investors) and (ii) the property fund has sufficient liquid assets not generated by disposal of Irish property assets for the purpose of funding the redemption. The terms on which redemptions will be satisfied must be set out in the prospectus.

7. The liquidity timeframe should be appropriately balanced between the notification period and the settlement period reflecting the importance of each. Settlement periods give the property fund time to dispose of property assets in order to limit any impact on market prices. However, the notification period plays an additional role, as it assists the AIFM in appropriately managing redemption requests and provides more time to ensure valuations accurately reflect the price they expect to receive, including under stressed market conditions.

8. Property funds that cannot sell their assets within the minimum timeframe should consider having longer liquidity timeframes in place, consistent with Regulation 18 of the Irish AIFM Regulations.



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