



Private and Confidential

Markets Policy Division
Central Bank of Ireland
Iveagh Court
Harcourt Road
Dublin 2
Ireland

12 September 2013

Ref: PMW

Dear Sir/Madam,

We welcome the publication of the discussion paper and broadly agree with the analysis and the thrust of the questions posed.

We have confined our response to areas of general policy. The investment management players are best positioned to offer views on industry specific matters.

Public Good and Shadow Banking

We believe that it is in the public interest that investment funds be allowed to originate loans. It is generally accepted that European business reliance on banks for credit is hindering economic recovery and represents a concentration risk. A more diverse population of lenders would improve business credit flow, militate against the “too big to fail” syndrome and enhance financial stability by aligning debt maturities and risk with pools of investors with matching objectives.

The regulatory framework for loan origination by funds needs to recognise the relative underdevelopment of the European non-bank loans market. In time there should be sufficient volume of loans to allow for the development of a deep and liquid secondary loans market. However, given the current capital constraints faced by the banks it is essential that the ability to originate loans be diversified to allow non-bank lending to develop in a reasonable time frame.

AIF Regulatory Framework

At this stage of the development of the European non-bank loans market we agree that the ability to originate loans should be confined to professional investor funds. The regulatory framework should be appropriate to an environment in which professional investors risk their own capital in funds lending to professional borrowers. We agree that the AIF rule book provides sufficient protection for investors.

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Hard Wired Constraints

We would not support hard wired constraints on the operation of professional loans funds. Such constraints may require consideration on the context of more widely distributed funds but an overly restrictive approach at this stage would militate against the development of the market. The professional investor interest is best protected by designing a framework that emphasises the requirement for credit expertise and full disclosure. Diversification and leverage restrictions would be counter-productive.

Capital/Co-investment Requirement

We do not believe that the so called “skin in the game” concept is appropriate in an environment where an asset manager has a long term relationship with the investor and where the manager’s remuneration and business reputation is dependent on the performance of the investment fund/loan portfolio.

Closed V Open Ended

In the context of professional investors lending to professional borrowers we do not favour a prescriptive approach. We believe that as a matter of industry practice closed ended options will often be adopted in order to match the liquidity characteristics of the underlying portfolio of loans. However, other options, such as gating and share buy backs, can be used to manage redemptions.

Yours sincerely

Pat Wall
PricewaterhouseCoopers