

QIF

A regulated alternative

The vehicle of choice for Regulated Hedge Funds in Ireland is the Qualifying Investor Fund (QIF). In the form of a QIF the Regulator will approve Prime Brokerage Agreements that allow the use of leverage and the holding of derivative products. The QIF is a flexible vehicle which can be brought very quickly to market. QIFs can be established in a number of legal forms such as Limited Partnerships, Unit Trusts or Limited Companies. The key attributes of QIFs are as follows:

Investment restrictions

There are no outright investment restrictions for a QIF, however there are some rules around certain holdings as follows:

- Where a QIF invests more than 50% of its assets in another scheme the QIF is regarded as a feeder type investment.
- QIFs established as fund of funds may invest up to 100% in unregulated schemes subject to a maximum of 50% in any one unregulated scheme.
- The Financial Regulator does not impose risk diversification requirements. It is the responsibility of the directors of the investment company to ensure that the QIF complies with the legislative requirement.
- A QIF may not raise capital from the public through the issue of debt securities. However, the financial regulator does not object to the issue of notes by authorised collective investment schemes, on a private basis to a lending institution to facilitate financing arrangements. Details of the note issue should be clearly provided in the prospectus.

Investors

QIFs as investment vehicles are suitable for high-net worth individuals or institutional investors. Investment in this type of fund is limited to:

- An individual with a minimum net worth (excluding main household and residence goods) in excess of €1,250,000 or
- An institution which owns/invests in a discretionary basis at least the equivalent of €25 million, although not necessarily in the Qualified Investor Fund.

Minimum initial subscription per investor in a QIF is €250,000, no limits are made on subscriptions thereafter.

Prime broker restrictions

An Irish custodian must be appointed to the fund. The prime broker is appointed by the custodian on a sub-custodian basis.

There is no limit on the extent to which assets may

be passed to a prime broker. The Financial Regulator's requirements for the use of prime brokers by Irish domiciled funds is as follows:

- The arrangement must incorporate a procedure to mark positions to market daily in order to monitor the value of assets passed to the prime broker on an ongoing basis.
- The prime broker must agree to return the same or equivalent assets to the fund.
- The arrangement must incorporate a legally enforceable right of set-off for the fund.

The prime broker must be regulated to provide prime broker services by a regulatory authority, must have a minimum credit rating of A1/P1 and must have shareholder's funds in excess of €200 million (or its equivalent in another currency).

There must be clear disclosure in the fund's documentation of its proposed relationship with the prime broker.

Borrowing or leverage restrictions

A QIF is not subject to borrowing or leverage limits but the prospectus must specify the extent to which borrowing or leverage may be used.

Redemption restrictions

The Regulator requires that the time between submission of a redemption request and payment of settlement proceeds must not exceed 90 calendar days in the context of a QIF feeder or fund of funds scheme, including QIF which provides for dealing on a more frequent basis (e.g. monthly, weekly etc.)

Qualified investor fund authorisation

The Regulator implemented new procedures that enable a QIF to be authorised in 24 hours provided a completed application is received before 3pm on the previous day. Additional requirements are as follows:

- The promoter, investment manager, custodian/trustee, administrator and all directors must be approved in advance by the Financial Regulator
- Any policy issues relating to the QIF must be cleared with the Financial Regulator in advance of authorisation
- The investment company or management company must certify that all of the fund documentation complies, in all material respects, with the Financial Regulator's Notices and Guidance Notes
- The custodian/trustee provides a similar confirmation in relation to the provisions of the custodian agreement/trust deed.

Contacts

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For more details on the above please contact:

Brian Forrester
Partner
T: +353 1 417 2614
E: bforrester@deloitte.ie

Glenn Gillard
Partner
T: +353 1 417 2802
E: ggillard@deloitte.ie

Michael Hartwell
Partner
T: +353 1 417 2303
E: mhartwell@deloitte.ie

Christian MacManus
Partner
T: +353 1 417 2658
E: chmacmanus@deloitte.ie

Colm McDonnell
Partner
T: +353 1 417 2348
E: cmcdonnell@deloitte.ie

Deirdre Power
Partner
T: +353 1 417 2448
E: depower@deloitte.ie

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Dublin
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

www.deloitte.com/ie



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