Legal Update

New measures for GBP-denominated LDI funds

The Central Bank of Ireland (the ''Central Bank'') recently announced the introduction of macroprudential measures for Irish-authorised GBP-denominated Liability Driven Investment ("LDI") investment funds. The measures require that such funds maintain sufficient resilience to a minimum of 300 bps increase in UK yields. This measure is being codified in coordination with the regulatory authority of Luxembourg, the Commission de Surveillance du Secteur Financier ("CSSF"), with whom the Central Bank have undertaken an aligned consultation process. This yield buffer is being introduced as an 'other restriction' under Article 25 of AIFMD by both the Central Bank and the CSSF.

Background

The Central Bank had introduced Consultation Paper 157 *"Macroprudential measures for GBP Liability Driven Investment Funds"* in November 2023 following the 2022 gilt (UK government bond) market crisis in the wake of the UK government's 'mini budget announcement'. During this crisis GBP denominated LDI funds were obliged to sell gilts at a moment of market illiquidity, creating further instability. This highlighted vulnerabilities amongst GBP denominated LDI strategies and forced the Bank of England to undertake intervention in the gilt market to afford LDI funds more time to reduce their leverage in an orderly manner. Given the significance of Irish-authorised GBP LDI funds in this overall sector the Central Bank issued an industry letter in November 2022 outlining its supervisory expectations for such funds to maintain an improved level of resilience. This letter was introduced in coordination with the CSSF following interaction with the European Securities and Markets Authority ("ESMA") and set out that such funds were expected generally to maintain a yield buffer reflecting the enhanced level of resilience observed at the time. In practice, resilience to a 300-400 basis point increase in yields.

Measures Adopted

Irish authorised GBP-denominated LDI funds are required to maintain resilience to a minimum of 300 bps increase in UK yields to safeguard market resilience so that they do not amplify stress in the gilt market as they did over September-October 2022. These measures will apply to both AIFMS of Irish domiciled AIFs and also to Irish AIFs with non-Irish AIFMs.

Timing

A three-month implementation period for existing funds as of 29th of April is provided for. However, GBP-denominated LDI funds authorised after this date are expected to adhere to the yield buffer limit from inception.

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