



Three routes to PIF establishment

There are now three routes to establishing a Private Investment Fund (PIF) in Guernsey. This summary sets out the key features of the new requirements under The Private Investment Fund Rules and Guidance 2021.

Route **1** Licensed Manager PIF

Route **2** Qualifying Private Investor PIF

Route **3** Family Relationship PIF

1

Summary of 'Route One' – POI Licensed Manager PIF

The Guernsey Financial Services Commission (the Commission) noted in a consultation paper that the current framework works well for certain providers and clients, and should continue to be available. Therefore, the option to register a PIF in exactly the same way as one does today will remain under the proposed regime. There will be no change to the applicable rules at the time of application and a PIF must appoint a licensee as manager to manage the scheme. For a PIF structured as a typical GP/LP arrangement, the licensed manager would usually be the GP. For a PIF structured as a corporate vehicle, a separate manager will still be required under Route One.

All currently registered PIFs will continue to be registered under the proposed regime as they will meet the requirements under 'Route One'. If a currently registered PIF seeks to change the basis of its registration, to use either the new 'Route Two' or 'Route Three', then this will be treated as a new PIF application with a corresponding application fee being payable.

Similarly, if an existing PIF seeks to change registration to the Registered Collective Investment Schemes Rules 2018, then it is proposed that a new application must be made which will incorporate a relevant form and fee.

2

Summary of 'Route Two' – Qualifying Private Investor PIF

Recognising the strong support for a PIF model without an attached POI licensed manager, the Commission suggested an alternative route to registration is proposed with the following elements:

1. all investors must meet qualifying criteria consistent with the definition of qualifying investor under the Qualifying Investor Fund (QIF) regime (it should be noted that there is a proposed enhancement to the criterion for an individual investor who makes an initial investment of no less than US\$100,000 or equivalent, requiring that the amount invested represents no more than 25% of the individual's investable assets);
2. the number of offers of units for subscription, sale or exchange must not exceed 200; and
3. written disclosure must be made to prospective investors providing at a minimum information on the regulatory status of the scheme, investor suitability and risk warning.

Subject to the above, the PIF Rules as currently in place would apply.

At the time of application the POI licensed fund administrator would be required to provide confirmations equivalent to those currently provided by a fund administrator in respect of any QIF application.

3

Summary of 'Route Three' – Family Relationship PIF

Taking into account the view that the PIF should be a truly private structure, the Commission proposed that a third route to registration as a PIF should be offered. This would firmly place the PIF as a private wealth structure, as opposed to a private wealth product. Using this route, there would be a family relationship between investors and no capital raising from investors outside this relationship.

It is proposed that the following restrictions would apply:

1. a family relationship must apply between all the investors or be an eligible employee of the family (for the purposes of this route, an "eligible employee" means an employee of the family meeting the definition of a QPI under Route Two); and
2. no capital may be raised by the fund from investors outside the family relationship.

There would be no requirement to appoint a POI licensed fund manager.

At the time of application the POI licensed fund administrator would be required to provide confirmations that effective procedures are in place to ensure restriction to only eligible family-related investors.

PIF Requirements Checklist

All funds applying for registration with the Commission as a PIF must fulfil certain requirements under the Private Investments Fund Rules and Guidance, 2021. The manager, or designated administrator of a proposed PIF, seeking a declaration of registration from the Commission must submit the appropriate application form and must also provide such other information as the Commission may require.

1 POI Licensed Manager PIF

In order to register as a POI Licensed Manager PIF, the scheme must fulfil the following criteria:

1. the number of investors must be no more than 50 legal or natural persons holding an ultimate economic interest in the PIF, except where the investment is made by an investment manager acting as agent for a wider group of stakeholders (this may be, for example, a manager acting as agent for investors in a collective investment scheme or equivalent, pension holders in an occupational scheme, or government funds – whether local or sovereign);
2. the scheme must be limited to no more than 30 new ultimate investors being added in the preceding twelve months;
3. the scheme must be a collective investment scheme; and
4. there must be a licensee responsible for its management.

2 Qualifying Private Investor PIF

In order to register as a Qualifying Private Investor PIF, the fund must fulfil the following criteria:

1. all investors must fit within the definition of a Qualifying Private Investor (QPI) (for the purposes of this route a QPI is an investor who is able: (a) to evaluate the risks and strategy for investing in a PIF; and (b) to bear the consequences of investment in the PIF, including the possibility of any loss arising from the investment);
2. the number of investors must be no more than 50 legal or natural persons holding an ultimate economic interest in the PIF;
3. any marketing must be specifically targeted to individual investors who have been identified as QPI's and the number of offers of units for subscription, sale or exchange must not exceed 200;
4. the fund must have a designated administrator appointed to it but there is no requirement to appoint a manager;
5. the designated administrator must make a declaration to the Commission, in the format required, that effective procedures are in place to ensure restriction of the scheme to QPIs; and
6. all investors have received a disclosure statement in the format prescribed by the Commission.

3 Family Relationship PIF

In order to register as a Family Relationship PIF, the fund must fulfil the following criteria:

1. all investors must share a family relationship or be an eligible employee of the family (for the purposes of this route, an "eligible employee" means an employee of the family meeting the definition of a QPI under Route Two);
2. the PIF cannot be marketed outside the family group;
3. the fund must have a designated administrator appointed to it, but there is no requirement to appoint a manager; and
4. the designated administrator must make a declaration to the Commission, in the format required, that effective procedures are in place to ensure that all investors fulfil the requirement of being related.