Enterprise Ireland (EI) introduces new standard-terms Convertible Loan Note (CLN) for companies

Insights - 11/07/2024

Enterprise Ireland (EI) has recently announced an update to its investment instruments, transitioning from cumulative redeemable convertible preference shares (CCRPs) to convertible loan notes (CLN) as their instrument of choice. The fundamental approach of EI towards investing in startups, however, remains unchanged, and this move is more of a modernisation of the funding mechanism rather than a shift in EI's investment policy or the rights and protections it seeks in its investments.

More rebranding than revolution

At first glance, the transition from CCRPs to CLNs might seem significant. However, upon closer examination, the core characteristics of EI's investment strategy remain intact. The newly adopted CLNs are unsecured, convertible loan notes with a 5-year term, carrying an interest rate initially set at 8% but reducible to 3% upon successful validation of the investment's expenditure after the second year post investment. This convertible nature, alongside the interest rate dynamics, closely mirrors the flexibility and investor protection ethos present in the previous CCRP model.

Key continuities

- **Investor Rights and Protections**: The standard investor rights, including customary warranties, consent rights, and information rights, remain consistent with those previously featured in CCRP rights
- **Conversion Terms**: Both instruments offer conversion rights under specific events, albeit under a new name and structure, maintaining a 20% discount on conversion
- **Interest Rates and Term:** The term of the investment and the interest rate, including the mechanism for reduction upon validation of expenditure, are elements that have been carried

over to the CLN format

Slight adjustments

While the overarching approach remains similar, the CLN structure introduces changes primarily related to the form of the investment and certain procedural aspects. For instance, the requirement for a loan note instrument and investment agreement becomes explicit in the CLN format. Additionally, the CLN terms provide for specific conditions related to director/shareholder loans, overseas costs, and the handling of conflicts, adding layers of clarity and specificity to the investment process.

Implications

The transition to CLNs is intended to streamline the funding journey for HPSUs by aligning with internationally recognised investment mechanisms. However, the essence of what EI looks for in a potential investment, the protections it seeks, and the support it offers to HPSU companies remain unchanged. For more information about this article please contact a member of Ogier's Corporate team in Ireland via their contact details below.

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