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Developments in Capital Call Subscription Facilities: 2017 Year in Review

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Capital call subscription credit facilities have become increasingly popular in recent years among private fund sponsors and investors. The primary purpose of these facilities is to enable the fund borrower to make investments without the need to make frequent or relatively small capital calls from investors.

The increased popularity of these facilities has spurred a heightened level of scrutiny from investors and regulators, as evidenced by the recent uptick in media coverage of these facilities. In response to intensified debate, the Institutional Limited Partners Association ("ILPA") earlier this year issued a set of guidelines for the use of capital call subscription facilities.[1]

Although some practitioners expressed concern that these guidelines would dramatically change the way capital call subscription facilities are structured, this has not been the case. In fact, the impact of the guidelines has been relatively modest. Investors and fund managers have primarily focused their attention on greater disclosure about the terms and use of capital call subscription facilities, rather than imposing limitations on facility amount, use of proceeds and calculation of preferred return as advocated by the guidelines.

In the coming year, we expect investors and fund managers to continue to focus on disclosure while the ILPA considers revising its guidelines. We may also see further commentary from regulatory bodies, such as the SEC, regarding the use of capital call subscription facilities.

If you have questions about capital call subscription facilities or other fund finance issues, please contact your usual Ropes & Gray advisor.

For further information about our Fund Finance practice, click here.

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[1] "Subscription Lines of Credit and Alignment of Interests: Considerations and Best Practices for Limited and General Partners" (June 2017).