AIFMD II: Key implementation developments in Luxembourg

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Overview

Two years on from the entry into force of Directive (EU) 2024/927, commonly referred to as AIFMD II, the 16 April 2026 transposition deadline has passed, and the state of play across the EU is best described as uneven, with compliance posture increasingly dependent on where an AIFM is authorised. However, Luxembourg, which hosts the largest shares of EU AIFs within the Union, transposed the Directive without material gold-plating.

The transposition deadline has also brought the EU's liquidity management tool (LMT) framework into focus. ESMA's Guidelines on LMTs for UCITS and open-ended AIFs were formally published on 12 March 2026, following amendments made in December 2025 to align them with the final Regulatory Technical Standards (RTS) adopted by the European Commission on 17 November 2025 (Commission Delegated Regulation (EU) 2026/465).

AIFMD II has moved from legislative text to operational reality. This article focuses on the two areas where that shift is most visible: loan origination, which will shape how private credit funds are structured, and liquidity management, where the Guidelines now give the Directive's requirements practical substance.

Liquidity management tools

In brief, the LMT regime requires AIFMs to select and embed at least two LMTs (from gates; notice extensions; redemption fees; swing/dual pricing; anti-dilution levies; and, for professional-investor-only AIFs, redemptions in kind - with swing and dual pricing barred as a sole pairing) into the fund documentation of open-ended AIFs, alongside suspensions and side pockets as last-resort tools; to make corresponding disclosures under Articles 23 and 24 AIFMD; and, at AIFM level, to maintain a liquidity management policy with supporting governance and training, notify the NCA of that policy and LMT selection, and report activations or deactivations outside business-as-usual use without delay.

What has worked well

When it comes to implementation, certain practices have distinguished themselves as effective. Firms that engaged fund boards and delegates early on LMT selection, rather than treating it as a late-stage compliance task, have generally navigated the transition with fewer governance friction points. AIFMs running multiple fund ranges have also benefited from adopting a single, consistent LMT framework across those ranges, materially reducing the cost of amending constitutional and offering documents fund-by-fund. At NCA level, the CSSF's approach has drawn particular praise: its handling of offering document and LMT disclosure updates, its speedily-issued circular on the ESMA Guidelines, and its LMT eDesk online reporting platform have given Luxembourg AIFMs a clear, workable compliance pathway.

Where firms have encountered difficulties

Other aspects of implementation have proven harder to navigate. The treatment of non-EU AIFs managed by EU AIFMs has generated uncertainty, as has investor sensitivity to particular LMT choices, given the direct economic consequences of gates, fees and pricing adjustments for redeeming and remaining investors alike. Firms have also grappled with sequencing: having achieved Level 1 compliance, managers are asking when and how to revisit their frameworks once the Level 2 RTS and ESMA's Guidelines take full effect, particularly given the twelve-month transitional period for existing AIFs. Divergent views on the appropriate level of investor disclosure have led to inconsistent approaches, and uncertainty around the pace and content of national implementing legislation compounded the difficulty of planning fund document amendments against a fixed Level 1 deadline in certain jurisdictions.

Loan origination

In brief, AIFMD II permits and regulates loan origination (direct or structured lending by an AIF) and, more stringently, "loan-originating AIFs" (LO-AIFs) whose strategy is mainly to originate loans or whose originated loans represent at least 50% of NAV. All AIFs that originate loans must implement loan-origination policies, procedures and processes, must keep exposure to any single financial undertaking, AIF or UCITS borrower under 20% of capital, must observe connected-party restrictions, and cannot run "originate-to-distribute" strategies; transferred loans require 5% risk retention for at least eight years, with proceeds attributed in full to the AIF. LO-AIFs face further constraints: closed-ended by default (open-ended only with NCA sign-off and LMT selection), and leverage limits of 175% (open-ended) and 300% (closed-ended).

Navigating the transitional thicket

The applicable transitional and grandfathering provisions run from AIFMD II's entry into force on 15 April 2024, not from the national transposition deadline – a distinction market participants should keep in mind when assessing their compliance timetable. AIFs constituted before 15 April 2024 that have not raised additional capital since that date are permanently exempt from the diversification, leverage and closed-ended requirements. AIFs constituted before that date but which have continued to raise capital thereafter benefit from a transitional exemption from the concentration limit, leverage caps and closed-ended requirement until 16 April 2029. AIFs constituted on or after 15 April 2024 must comply in full from 16 April 2026, with no benefit of grandfathering. Certain other rules – implementation of loan-granting policies, allocation of loan proceeds, connected-party restrictions and the risk retention requirement – apply to all newly originated loans regardless of the AIF's vintage, subject to any national transitional measures.

Looking ahead

What AIFMs should now be doing depends on when their AIFs were, or will be, constituted. For AIFs constituted before 16 April 2026, the immediate task is a gap analysis against the forthcoming Level 2 RTS, identifying where systems, processes and documentation require updating, alongside preparation for the broadened regulatory reporting obligations that apply from 16 April 2027. Existing LMT policies and calibrations should be reviewed against the RTS and Guidelines to ensure activation and deactivation procedures are robust, delegation oversight frameworks should be updated for the more granular delegation reporting to come, and, for existing LO-AIFs, the applicable transitional provisions should be revisited on the basis that AIFs continuing to raise capital must reach full compliance before 16 April 2029.

For AIFs constituted on or after 16 April 2026, the position is more straightforward in principle: new fund documentation must be drafted in full compliance with both Level 1 and Level 2 RTS requirements from inception; enhanced regulatory reporting infrastructure must be built for the obligations taking effect from 16 April 2027; LMT frameworks must satisfy both the Level 1 selection requirements and the Level 2 RTS on calibration; and new LO-AIFs must comply in full, from launch, with the leverage limits, diversification requirements, retention obligations and connected-party restrictions described above. Whether an AIF pre-dates or post-dates the 16 April 2026 watershed, AIFMD II implementation is no longer an abstract exercise but a matter of operational execution, and the firms best placed to meet it will be those who have already turned their attention to the practical detail.