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ESMA Consults on Open-Ended Loan Originating AIFs

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On 12 December 2024, the European Securities and Markets Authority ("**ESMA**") published a consultation paper ("**Consultation**") on draft regulatory technical standards relating to open-ended loan originating AIFs under the revised Alternative Investment Fund Managers Directive (EU/2024/927) ("**AIFMD 2**").

Purpose of the Consultation

AIFMD 2 stipulates that loan-originating AIFs should generally be closed-ended, but can be "open-ended" if the AIFM is able to demonstrate to its home member state regulator that the AIF's liquidity risk management system is compatible with its investment strategy and redemption policy.

The purpose of the Consultation is to determine the requirements that a loan originating AIF must comply with in order to maintain an "open-ended" fund structure and it includes ESMA's proposals in respect of the same.

Key areas of focus

Key areas addressed in the Consultation include:

- **a sound liquidity management system:** proposals aimed at ensuring a robust system that aligns with the fund's investment strategy and redemption policy;
- **availability of liquid assets and stress testing:** maintaining sufficient liquid assets and conducting regular stress tests to manage liquidity risk effectively; and
- **redemption policy**: developing an appropriate redemption policy that considers the liquidity profile of the AIF's loan assets.

These requirements take into account factors such as the nature of the underlying loan exposures, average loan repayment times and overall composition and the granularity of the fund's portfolio.

Next steps

The Consultation is open for feedback until 12 March 2025 and the final RTS is due to be submitted to the European Commission in Q3 or Q4 2025, ahead of 16 April 2026 (being the date by which Member States will be required to have implemented the AIFMD 2 requirements).

Market participants should continue to monitor these developments and reach out to your usual Proskauer contact if you have any questions or reach us at ukreg@proskauer.com.

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