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Alternative Funds

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LUXEMBOURG



Law and Practice

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Luther is a leading business law firm established in 2010 in Luxembourg. Relying on its international network, the firm's multilingual professionals advise domestic and international clients across seven practice areas. Its clients – ranging from multinational corporations, investment funds and financial institutions to private equity firms – have placed their trust in the firm's interdisciplinary legal advice. The firm counts 27 legal advisers including eight partners, and is

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1. General

1.1 General Overview of Jurisdiction

Luxembourg is one of the smallest countries in Europe, yet it is a global giant in the investment fund industry. Luxembourg is the second largest investment fund centre in the world and is the leading hub for alternative investment funds (AIFs) in Europe. With its funds being offered in over 80 countries and a 55% global market share in cross-border investment funds, Luxembourg remains the leading global distribution centre for AIFs.

Its multiple structural and regulatory advantages contribute to Luxembourg's enduring success as a leading hub for AIFs.

- **Comprehensive legal framework:** Luxembourg offers a wide range of regulated and unregulated vehicles, allowing sponsors and managers to tailor their products to their specific tax and regulatory needs.
- **Institutional infrastructure:** Luxembourg hosts a full-service ecosystem of fund administrators, depositaries, auditors and legal advisers highly experienced in cross-border and alternative strategies. Over the years, many international sponsors have therefore migrated not just back-office but also risk, compliance and portfolio management functions to Luxembourg.
- **European and global reach:** Luxembourg-domiciled funds benefit from the Alternative Investment Fund Managers Directive (AIFMD) marketing passport across the EEA, making Luxembourg the ideal gate

to the European market in combination with its extensive tax treaty networks.

- **Legislative leadership:** Luxembourg has a long track record of early and consistent implementation of European legislation, from the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the AIFMD to the European Long-Term Investment Fund (ELTIF) Regulation, all of which exemplify Luxembourg's agility and adaptability to new developments – the ELTIF Regulation 2.0 is one example of Luxembourg's positioning well to capture the shift towards semi-professional and high net worth retail investors (so-called democratisation of AIFs).
- **Balanced regulatory approach** boosting investor confidence: the *Commission de Surveillance du Secteur Financier* (CSSF) maintains a pragmatic yet rigorous supervisory style, enhancing investor protection while supporting financial innovation.

1.2 Key Trends

Loan Origination Funds

Directive (EU) 2024/927 (AIFMD II) establishes, for the first time, a dedicated European framework for loan-originating AIFs. This provides legal certainty and a harmonised basis for private credit funds across the EU. The new regime expressly recognises both open-ended and closed-ended loan-originating strategies and sets out clear parameters for their operation, thereby facilitating access to this asset class in a regulated environment.

In particular, AIFMD II acknowledges the possibility for loan-originating AIFs to be structured as open-ended, provided that the AIF's risk management system is

compatible with its investment strategy and redemption policy. This offers managers flexibility in tailoring their fund structures to investor needs while demonstrating robust risk management. The regulatory technical standards (RTS) from the European Securities and Markets Authority (ESMA) published on 21 October 2025 (which are still subject to endorsement by the European Commission) provide additional detail on the operational requirements for maintaining an open-ended structure, which further enhances predictability for market participants.

AIFMD II must be implemented into Luxembourg law by 16 April 2026. Based on the recently published Draft Bill No 8628, Luxembourg is expected to implement the new regime without gold-plating, thereby ensuring that sponsors can benefit from the full range of structuring opportunities made available under AIFMD II.

Revival of Regulated Fund Structures

A trend towards regulated vehicles is observable (ie, vehicles that are authorised and supervised by the CSSF), as is the opening of alternative strategies to retail investors, a development that is supported by the revised ELTIF framework. This development has been further enhanced by the CSSF through its new “e-Identification” system (applicable as of April 2025) replacing the existing VISA procedure for offering documents of regulated funds, and featuring a new unique identification number and e-identification date. The new system establishes a catalogue of amendments that do not legally require authorisation and prior review by the CSSF, and is expected to significantly reduce approval timelines through streamlined and more efficient administrative procedures.

Sustainability

Sustainability remains a focus, both for sponsors and for investors. With Circular 24/863, the CSSF confirmed the application of ESMA’s guidelines on funds’ names using ESG or sustainability-related terms. These guidelines bring additional clarity by introducing quantitative thresholds for the use of such terms, tying them to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives, and by defining certain excluded investments depending on the

terminology employed. This provides fund managers and investors with greater transparency and legal certainty when using ESG references. On a more global scale, the contemplated revision of the Sustainable Finance Disclosure Regulation (SFDR) in the context of the sustainability “Omnibus”, once finalised, aims at simplifying and harmonising sustainability reporting requirements across the EU, and could reduce complexity and enhance legal certainty for fund managers and investors alike.

Carried Interest

As part of its ongoing efforts to enhance its attractiveness for fund managers and sponsors and to address gaps in the previous regime, Luxembourg’s government recently published a new bill of law to modernise its carried interest tax regime. The new rules, which would apply from tax year 2026 if adopted, foresee that contractual carried interest will be taxed at just a quarter of the standard progressive income tax rate, while participation-linked carried interest may be fully exempt from taxation. Additionally, the bill amends the scope of eligible beneficiaries of the current regime, which, going forward, may include both employees and non-employees, providing managers and sponsors with a more predictable and favourable framework for structuring carried interest.

2. Funds

2.1 Types of Alternative Funds and Structures

Luxembourg offers one of the most comprehensive and flexible investment funds toolboxes in Europe for the establishment of AIFs, making it a go-to jurisdiction for such vehicles globally.

Luxembourg AIFs may be set-up as regulated or unregulated vehicles, open-ended or closed-ended funds, purely contractual vehicles (so-called *fonds commun de placement* FCP) or other structures (eg, in corporate form or as a partnership).

Most Luxembourg AIFs can be established as umbrella funds with multiple segregated sub-funds or as standalone vehicles. The choice between corporate forms (such as public limited liability companies (SAs) or corporate partnerships limited by shares (SCAs)), part-

nership structures (such as common limited partnerships (SCSs) or special limited partnerships (SCSps)), or FCPs is driven by various factors. Besides governance preferences, factors such as the desired tax and liability regime, eligible investors, and flexibility and cost considerations are determinative in this respect.

For illiquid asset classes such as private equity and private debt, vehicles are often structured as SCSps-AIFs due to the flexibility and alignment with international limited partner/general partner standards. For real estate and infrastructure investments, both corporate forms and partnerships are common. Unregulated, closed-ended reserved alternative investment fund (RAIF) structures remain particularly popular due to their time-to-market advantages in comparison to regulated vehicles such as specialised investment funds (SIFs) or investment companies in risk capital (SICARs).

AIFs are more frequently structured as UCI Part II funds with an additional ELTIF label.

2.2 Regulatory Regime for Funds

Part II Funds

So-called UCI Part II funds are subject to Part II of the amended Luxembourg law of 17 December 2010 relating to undertakings for collective investment (the “2010 Law”). They are subject to prior CSSF authorisation and ongoing supervision. Generally, no investor eligibility restrictions apply. However, strict risk diversification requirements apply.

SIFs

The SIF regime was introduced by the amended law of 13 February 2007 relating to specialised investment funds. SIFs are subject to prior authorisation and ongoing supervision by the CSSF and are reserved for “well-informed investors” – including institutional investors, professional investors and any other investors having been identified as well-informed investors and investing a minimum of EUR100,000, or whose knowledge to adequately appraise their investment has been certified (eg, by a bank or investment firm).

SIFs offer broad flexibility regarding eligible assets but are subject to a mandatory risk-spreading, according to which, in principle, no more than 30% of the SIF’s

assets or commitments may be invested to subscribe securities of the same type issued by the same issuer (subject to certain exceptions).

SICARs

SICARs are subject to the amended Luxembourg law of 15 June 2004 relating to the investment company in risk capital (the “SICAR Law”) and were specifically established for investments in “risk capital”. Regarding the notion of risk capital, parliament has referred in its parliamentary works to venture capital and private equity financings. More generally, according to CSSF Circular 06/241, risk capital under the SICAR Law may be characterised by the concurrent gathering of two elements: a high risk and an intention to develop the target entities.

SICARs are subject to prior CSSF authorisation and ongoing supervision, and are generally open for “well-informed investors” only. SICARs are not subject to risk diversification requirements and may invest in one single asset.

RAIFs

The RAIF regime was introduced by the amended Luxembourg law of 23 July 2016 on reserved alternative investment funds to provide a flexible vehicle combining features of both SIFs and SICARs. RAIFs are not directly regulated by the CSSF, but must be managed by an authorised external alternative fund manager (AIFM) established in Luxembourg or another EU member state or having been authorised in accordance with Chapter II of the AIFMD, so that indirect supervision occurs via the prudential oversight of the external AIFM. RAIFs are generally eligible for well-informed investors. They are not restricted in terms of eligible assets, unless they opt for the SICAR regime – in which case, they must invest solely in risk capital. Like SIFs, RAIFs are generally subject to a 30% risk-spreading requirement, unless they opt for the SICAR regime – in which case, no risk-spreading requirement applies.

Unregulated AIFs

Unregulated AIFs are organised under general company law only – most commonly as SCSps or SCSs – and are not subject to any specific product law. These vehicles offer maximum contractual freedom. Unless

otherwise agreed between the partners, unregulated AIFs are not subject to any investment restrictions nor to risk-spreading requirements.

Where these funds qualify as AIFs within the meaning of the AIFMD and seek to benefit from the EEA AIFM marketing passport, they must appoint an authorised external AIFM. Alternatively – and frequently used by start-up fund managers and venture capital structures – the AIFs may appoint a registered AIFM (a so-called de-minimis AIFM), which must remain below certain thresholds and is subject to only limited reporting requirements; such structures are generally more flexible and offer the additional advantage of reduced costs.

ELTIFs

ELTIFs are regulated funds designed to facilitate long-term investment in various sectors and contribute to the financing of the real economy, including towards investments that promote the European Green Deal and other priority areas that are aligned with the EU's objective of smart, sustainable and inclusive growth. Governed by the amended Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds, they combine investor protection with support for sustainable growth. The ELTIF may be offered to retail and professional investors, impose diversification and leverage limits, and typically feature longer lock-up periods due to the illiquid nature of its assets. Luxembourg ELTIFs are subject to authorisation and supervision by the CSSF. The ELTIF is an additional layer that can be applied to any regulated and unregulated Luxembourg collective investment scheme (except for UCITS).

Time to Market

The time to market differs between the various regimes. Unregulated AIFs can be established under private seal within a few weeks, while regulatory approval for more regulated vehicles can take several months (often around two to six months, depending on complexity). Approval times for ELTIFs are generally shorter.

2.3 Disclosure/Reporting Requirements Offering Document

For regulated Luxembourg AIFs and RAIFs, an offering document (also called a private placement memorandum) must be made available to investors. This document must contain all necessary information for investors to make an informed investment decision. Among others, the offering document must contain sustainability-related risk disclosures pursuant to Regulation (EU) 2019/2088 (SFDR). The offering documentation must be kept up to date while AIFs are open for investor subscriptions. If the AIFs are marketed to non-professional investors, a Key Information Document for Packaged Retail and Insurance-Based Investment Products (PRIIPs KID) is also required.

The offering documentation of regulated AIFs is subject to prior CSSF approval and ongoing supervision; any material amendments are subject to prior CSSF approval.

For unregulated SCSps, there are no specific statutory disclosure requirements unless they qualify as an AIF, in which case specific AIFMD disclosure requirements may apply.

Reporting

Regulated vehicles are subject to certain reporting obligations to the CSSF for statistical and oversight purposes, such as particular anti-money laundering and combating terrorism financing (AML/CTF) reporting – eg, the self-assessment questionnaire, a separate report and management letter, and the monthly U 1.1 report based on CSSF Circular 21/790 and CSSF Circular 15/627, as amended by CSSF Circular 25/871. Additionally, Luxembourg AIFs managed by an authorised AIFM will be (indirectly) subject to AIFMD Annex IV reporting to the CSSF.

Public Availability

While the offering documents and reporting must generally be made available to investors, they are not usually published publicly. However, certain information may be accessible on the official website of the CSSF, such as the AIF's regulatory status or its CSSF number. Furthermore, specific transparency rules may apply if an AIF is listed or otherwise admitted on a regulated market.

ELTIFs

For ELTIFs, additional disclosure and reporting obligations may apply.

2.4 Tax Regime for Funds

Part II Funds, SIFs and RAIFs (SIF-type)

Part II Funds, SIFs and RAIFs that follow the SIF regime are generally exempt from corporate income tax, municipal business tax and net wealth tax. Instead, these funds are subject to an annual subscription tax (*taxe d'abonnement*) calculated on their net asset value: 0.05% for Part II Funds and 0.01% for SIFs and RAIFs. Certain exemptions apply, notably a full exemption for AIFs or individual compartments being authorised as ELTIFs in accordance with the amended Regulation (EU) 2015/760.

SICARs and RAIFs (SICAR-type)

SICARs and RAIFs that opt for the SICAR regime are generally fully subject to income taxes at ordinary rates if established in corporate form, but are entitled to a tax exemption in respect of income and capital gains derived from transferable securities relating to investments in risk-bearing capital. SICARs or RAIF-SICARs are generally not subject to subscription tax, but are subject to the minimum net wealth tax if established in corporate form.

Unregulated AIFs (SCS/SCSp)

Unregulated AIFs are generally tax-transparent for Luxembourg tax purposes. Investors are, therefore, deemed to realise the income and gains of the unregulated AIFs based on a look-through approach. Unregulated AIFs may, however, be subject to taxation in Luxembourg if they carry out a commercial activity (which is unlikely given their AIF status), if their general partner holds a participation of at least 5%, or as a consequence of the application of anti-abuse rules such as the ATAD II anti-hybrid mismatch rules. No subscription tax, net wealth tax or withholding tax is generally levied at fund level, and investors are taxed according to their own tax status in their home jurisdiction.

VAT Treatment

Fund management services provided to Luxembourg AIFs are generally exempt from Luxembourg VAT.

However, the supply of other services may be subject to Luxembourg VAT.

Withholding Tax

Generally, no withholding tax is levied on distributions made by Luxembourg AIFs to their investors.

Double Tax Treaties

Tax-transparent vehicles such as SCSs or SCSPs generally do not benefit from double taxation treaties, while Luxembourg corporate vehicles might have access to Luxembourg's extensive double tax treaty network.

2.5 Loan Origination

Luxembourg-domiciled AIFs may originate loans. The CSSF has long acknowledged loan origination as a permissible activity for AIFs, subject to compliance with the Luxembourg law of 12 July 2013 on alternative investment fund managers (the "AIFM Law"); AIFMD II now also establishes a dedicated European framework for loan origination at EU level (see 2.10 Anticipated Changes for Funds).

Each AIFM managing AIFs that originate loans (or the AIF itself if internally managed) should include and provide proper organisational and governance structures (processes and procedures). It should have the necessary expertise/experience in origination activity combined with appropriate technical and human resources, with a focus on credit and liquidity risk management (within an overall adequate risk management process), concentration and risk limitation, clear policies regarding assets and investors (eg, loan and investor categories, avoidance of conflicts of interest), proper disclosure and transparency.

ELTIFs may grant loans to qualifying portfolio undertakings within the meaning of the ELTIF Regulation.

2.6 Non-Traditional Assets

Virtual Assets

Luxembourg AIFs marketed only to professional and well-informed investors may generally invest directly (and indirectly) in virtual assets. The CSSF continues to adopt a cautious approach, exploring ways to facilitate institutional and professional investor access to crypto-assets, while maintaining protective meas-

ures for potential retail participation through financial instruments. Any fund considering exposure to virtual assets must ensure full compliance with applicable AML/CTF obligations and EU Regulations, including the forthcoming Regulation (EU) 2023/1114 on markets in crypto-assets.

Litigation Funding

Litigation funding is permissible for Luxembourg AIFs provided that adequate governance arrangements are implemented. There are no specific statutory restrictions on this asset class; however, managers must ensure that the AIF's risk management framework appropriately addresses the unique risks associated with litigation finance.

Other Non-Traditional Assets

Luxembourg AIFs are generally not subject to any restrictions on eligible asset classes (except ELTIFs) and may therefore generally invest in both traditional and non-traditional asset classes (such as consumer credits or cannabis). However, as a general principle, investments should comply with the public order principle (*ordre public*) and applicable Luxembourg laws and regulations, as well as with the laws and regulations of the jurisdiction where the investments will be made. Furthermore, the CSSF might impose restrictions or require the AIFs/AIFMs to comply with additional obligations.

2.7 Use of Subsidiaries for Investment Purposes

It is common for Luxembourg AIFs to establish subsidiaries – commonly referred to as special purpose vehicles (SPVs) – for investment purposes or to implement particular strategies. This structuring technique is widely applied across asset classes.

The main drivers include the following.

- Regulatory and legal considerations – certain jurisdictions require foreign investors to hold assets through locally incorporated entities or impose ownership and licensing restrictions. SPVs facilitate compliance with these requirements.
- Co-investments and joint ventures – SPVs provide a practical vehicle for structuring co-investments

or for entering into joint ventures, ensuring clear governance and allocation of returns.

- Financing flexibility – SPVs can act as dedicated borrowing entities, facilitating project-level or non-recourse financing that does not impact the overall leverage profile of the main fund.
- Tax flexibility – SPVs are frequently used to:
 - (a) mitigate investors' reporting obligations in the country of investment;
 - (b) facilitate cash repatriation through tailored intra-group financing structures;
 - (c) optimise access to double tax treaties; or
 - (d) avoid unfavourable tax regimes due to discrepancies in the implementation of certain international tax legislation.

2.8 Local/Presence Requirements for Funds

Luxembourg does not impose a general requirement for AIFs to appoint a local investment manager. Local presence and substance requirements depend on the AIF's legal form, regulatory regime, and whether it is internally managed or managed by an external AIFM.

Luxembourg FCPs should be managed by a Luxembourg management company authorised in accordance with Chapters 15, 16 or 18 of the 2010 Law. The management company may appoint an external AIFM to perform the portfolio and risk management of the FCP.

AIFs may appoint an AIFM established anywhere in the EU. However, if the AIF is self-managed or if the AIFM is Luxembourg-based, local substance rules apply.

Key local substance considerations include the following.

- Central administration: regulated AIFs must maintain central administration in Luxembourg (accounting, NAV, record-keeping).
- Directors/managers: there is no statutory residence requirement for AIF directors/managers, but market practice recommends that at least half of them be Luxembourg-based or able to travel regularly to Luxembourg.
- General partner: Luxembourg partnerships (SCSs/SCSPs) require a general partner. While not legally

required to be Luxembourg-incorporated, it is recommended for regulatory, tax and substance purposes that the general partner has a legal and operational presence in Luxembourg.

- Business premises and employees: no explicit obligation exists, but the CSSF and tax authorities expect AIFs and managers to demonstrate adequate local substance via offices and staff proportionate to their activities.

2.9 Rules Concerning Service Providers

Under Luxembourg law, the core service providers of regulated AIFs – such as the central administration agent, depositary and auditor – must either be established and authorised in Luxembourg or operate through a Luxembourg branch.

Unregulated partnerships are not subject to a requirement to maintain their central administration in Luxembourg. However, from a corporate law perspective, they must ensure that their principal place of management and decision-making is located in Luxembourg in order to preserve their Luxembourg nationality.

In addition, according to the 2004 Law, each AIF must appoint, among the members of its management body, a person responsible for compliance with the professional obligations as regards AML/CTF (*responsible du respect des obligations*) and a compliance officer at appropriate hierarchical level in charge of monitoring compliance with the AML/CTF obligations (*responsable du contrôle du respect des obligations*). Both should have the professional experience and knowledge of the Luxembourg legal and regulatory framework relating to AML/CTF, the hierarchy and powers within the AIF (including the power to access, on a timely basis, the identification data of customers and other information and documentation required to fulfil their duties) as well as the availability necessary to effectively and autonomously exercise their functions.

2.10 Anticipated Changes for Funds

AIFMD II introduced harmonised operating conditions for AIFs engaging in loan origination, whether directly or through SPVs, providing welcome clarity on the conditions under which AIFs may originate loans across the EEA. By setting clear parameters on mat-

ters such as leverage, risk retention, concentration limits and lending to related parties, AIFMD II creates a stable and predictable environment for private credit strategies, thereby paving the way for further growth of this asset class in Luxembourg and beyond. Based on the recently published Draft Bill No 8628, Luxembourg is expected to implement the rules without gold-plating, ensuring that AIFMs and investors can fully benefit from the new opportunities.

In parallel, the European Commission continues its drive towards strengthening EU competitiveness through regulatory simplification. It adopted a simplification package covering several legislative areas, including sustainable finance. At its core lies the sustainability “Omnibus”, introducing targeted amendments to the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). While focused on the CSRD and CSDDD, the Omnibus is widely regarded as a stepping stone towards the anticipated revision of the SFDR, which is expected to streamline sustainability classifications and disclosure requirements, thereby reducing complexity, enhancing comparability and providing fund managers with a more coherent framework for integrating sustainability into their strategies.

3. Fund Managers

3.1 Origin of Promoters/Sponsors of Alternative Funds

Reflecting Luxembourg’s status as a global fund domicile, sponsors and managers of Luxembourg AIFs come from all parts of the world, with the USA, UK and Germany as the leading jurisdictions based on the percentage of net assets under management. Other significant jurisdictions include Switzerland, France, Italy, Belgium, Luxembourg itself, the Netherlands and Denmark.

3.2 Legal Structures Used by Managers

In Luxembourg, sponsors typically use private or public limited liability companies (SARLs/SAs) when serving as AIFMs, not least due to the limitation of liability. The general partners of partnership structures or SCAs – who typically manage the AIFs in addition

to their unlimited liability for the fund's obligations – are mostly structured as SARLs. However, personnel compensation/equity incentive arrangements structured via the AIFMs rather than via dedicated carry vehicles may indeed influence their structuring and choice of legal form, with the decisive factor generally being tax aspects at the level of the recipient of such compensations/incentives.

3.3 Regulatory Regime for Managers

Luxembourg AIFMs are primarily subject to the AIFM Law and Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012. Additionally, administrative guidance applies (particularly in the form of circulars – notably Circular CSSF 18/698 – or FAQs issued by the CSSF).

Luxembourg AIFMs are subject to prior CSSF authorisation and ongoing supervision. They need to meet minimum capital and own funds requirements, and to have personnel with sufficiently good repute and experience in effectively conducting their business. Furthermore, they need to have adequate and appropriate procedures and policies in place regarding (among others) remuneration, conflict of interests, liquidity management and valuation.

Authorised AIFMs generally benefit from an EEA-wide marketing passport to professional investors; certain notification obligations apply. While there is no statutorily defined “fiduciary duty” under Luxembourg law, AIFMs are required to act fairly and honestly, with due skill, care and diligence, in conducting their activities.

Luxembourg AIFMs must provide extensive disclosures to both the CSSF and investors. Pre-contractual disclosures for each AIF they manage should include information on the AIF's investment strategy and objective, its valuation procedure and liquidity risk management, and a description of all fees, charges and expenses and of the maximum amounts thereof that are directly or indirectly borne by investors. Ongoing disclosures include the preparation of an annual report for each AIF, and regulatory reporting such as Annex IV reporting under the AIFMD. With the implementation of AIFMD II, additional transparency requirements may apply.

On 27 June 2025, the CSSF published CSSF Circular 25/894, which expands reporting obligations for AIFMs – including registered and authorised AIFMs and Luxembourg Chapter 15 management companies – in relation to investment funds that they manage which are not authorised by the CSSF (such as SCSps-AIFs, RAIFs, and AIFs established in the EEA).

3.4 Tax Regime for Managers

Luxembourg AIFMs are not subject to a specific tax regime; general tax rules apply. Consequently, when established in corporate form, Luxembourg AIFMs are generally subject to corporate income tax and municipal business tax, with a combined effective tax rate of 23.87% in 2025 for companies established in Luxembourg City. Additionally, they would also be subject to net wealth tax.

Services qualifying as management services for Luxembourg VAT purposes are generally exempt from Luxembourg VAT.

3.5 Rules Concerning Permanent Establishments

The mere appointment of a Luxembourg-based AIFM does not create a permanent establishment or other taxable presence for a foreign AIF in Luxembourg.

3.6 Taxation of Carried Interest

Under the currently applicable regime, carried interest received by Luxembourg-resident individuals is generally taxed at the progressive income tax rates, which can reach up to 45.78%. The specific tax treatment depends on the structure and timing of the carried interest payment. If structured as a capital gain on a participation held for more than six months and below the substantial shareholding threshold (typically 10%), it may benefit from a full tax exemption. However, if these conditions are not met, or if the carried interest is paid as a performance fee or bonus not linked to an actual participation in the AIF, it will be subject to ordinary rates. No special flat-rate regime currently applies; previous temporary regimes have expired and any new regime would only apply from 2026 onwards.

3.7 Outsourcing of Investment Functions/ Business Operations

Luxembourg AIFMs are permitted to delegate some of their functions subject to strict regulatory requirements. Most notably, the AIFMs must retain at least one of the core functions (portfolio or risk management). The AIFM further remains fully responsible for oversight of all delegated activities; it must ensure that the delegate has any required authorisations or registrations and sufficient resources to perform the delegated tasks, and that the persons who effectively conduct the business of the delegate are of sufficiently good repute and sufficiently experienced.

Delegations to third-country undertakings additionally require that co-operation between the CSSF and the supervisory authority of such undertakings be ensured. Delegations to a depositary are prohibited.

The AIFM's liability towards the AIF and its investors shall not be affected by the fact that it has delegated functions, or by any further sub-delegation. The AIFM must not delegate its functions to the extent that, in essence, it can no longer be considered to be the manager of the AIF. Sub-delegation is possible but subject to equivalent requirements.

3.8 Local Substance Requirements

Luxembourg AIFMs must maintain adequate financial, governance, technical and human resources. These requirements are set out in the AIFM Law and Circular CSSF 18/698. In particular, AIFMs must hold sufficient initial capital and own funds (minimum initial capital of EUR125,000 or EUR300,000 for self-managed AIFs) and keep them liquid and readily available. See 3.3 Regulatory Regime for Managers.

Central administration – including decision-making and key administrative functions such as accounting, IT and compliance – must be in Luxembourg with dedicated premises and generally at least three full-time employees performing key functions.

Governance typically requires a governing body of at least three qualified members (in one-tier systems) and two conducting officers, responsible for the day-to-day management and effective conducting of the AIFM's business.

Internal governance must, in particular, ensure sound and prudent business management; IT infrastructure must support secure operations.

The CSSF applies these requirements proportionally based on the AIFM's size, scale and complexity, emphasising real local substance to ensure effective management, oversight and operational resilience.

Luxembourg law is already closely aligned with the substance requirements of AIFMD II, meaning that AIFMD II is expected to have minimal impact on the substance alignments of AIFMs.

3.9 Change of Control

In Luxembourg, mergers, sales, restructurings or similar transactions involving an AIFM or its parent company may require CSSF authorisation or trigger notification obligations.

Any acquisition or disposal of a qualifying holding pursuant to the AIFM Law requires prior approval by the CSSF. Among other things, the CSSF assesses the suitability of the acquirer to ensure the sound and prudent management of the AIFM. Group restructurings affecting the shareholding structure may also require CSSF review.

Consent of the AIF's investors is not legally required unless stipulated in the fund documentation or side letters. However, material changes affecting control, governance or key personnel may be subject to prior investor approval or may trigger disclosure obligations to them.

3.10 AI and Use of Data

Luxembourg AIFMs that use AI, predictive analytics or big data must comply with Regulation (EU) 2024/1689 laying down harmonised rules on AI (the "AI Act") and with general data protection rules, in particular Regulation (EU) 2016/679 (GDPR). Depending on the AI system's classification, requirements may apply in areas such as transparency, human oversight, risk management and governance, including the mitigation of risks such as bias and cybersecurity.

Currently, no Luxembourg-specific AI legislation is in force, but Draft Bill 8476 is progressing with the aim of

designating national authorities and setting enforcement mechanics under the AI Act. However, in May 2025 the CSSF and the Central Bank of Luxembourg reported in their joint survey on the use of AI in Luxembourg's financial sector. They noted growing adoption, particularly following the launch of generative AI tools, and confirmed that supervisory monitoring of AI deployment in the financial sector will continue.

3.11 Anticipated Changes for Fund Managers

The implementation of AIFMD II into Luxembourg law, along with forthcoming regulations and guidance such as the RTS, represents a significant step in providing a harmonised and transparent framework for loan-originating AIFs across the EEA, and is expected to further boost Luxembourg's private credit market.

Furthermore, the proposed modernisation of the carried interest tax regime, if adopted, is expected to further enhance Luxembourg's attractiveness for AIFMs, as the draft bill not only expands the scope of eligible beneficiaries but also introduces favourable tax treatment, including tax reductions for contractual carried interest and potential full exemptions for participation-linked carried interest.

4. Investors

4.1 Types of Investors in Alternative Funds

Luxembourg continues to attract a diverse and global investor base for AIFs, cementing its status as a leading international fund domicile. Institutional investors as well as family offices and high net worth individuals actively invest through Luxembourg structures. Luxembourg's robust legal framework, flexible fund toolbox and strong cross-border distribution capabilities make it particularly attractive to both European and non-European investors, with growing interest from Asia, Latin America and the Middle East. Retail participation is increasingly made via Luxembourg Part II UCIs with ELTIF layers, highlighting the growing success of ELTIFs for alternative strategies.

4.2 Side Letters

Side letters are well established in Luxembourg AIF structures. While permitted in principle, side letters may not undermine the principal of fair and equal

treatment of investors. For AIFs under the scope of the AIFMD, the AIF's constitutive documents must disclose the types of preferential treatment that may be granted and the criteria for granting it, ensuring transparency for all investors. There is no statutory obligation to grant "most-favoured nation" rights, but such clauses are often negotiated by institutional investors in particular.

4.3 Marketing of Alternative Funds to Investors

AIFs can be marketed to different types of investors depending on the AIF regime:

- SIFs, SICARs and RAIFs are reserved for well-informed investors;
- Part II UCIs and ELTIFs may be marketed to both retail and professional investors; and
- unregulated AIFs (such as SCSs/SCSps) have no statutory investor eligibility limitation under Luxembourg law, but the EEA AIFM marketing passport may only be used for marketing to professional investors.

Luxembourg-based investors can invest in AIFs established in Luxembourg provided they meet the investor eligibility criteria of the relevant fund type.

4.4 Rules Concerning Marketing of Alternative Funds

AIFMs marketing or advertising AIFs in Luxembourg must comply with the AIFM Law, applicable EU regulations and CSSF guidance. For cross-border marketing within the EEA, AIFMs may benefit from an EEA marketing passport – this is a passport allocated to AIFMs authorised in the EU enabling them to manage AIFs and to market these within the EEA, subject to notification requirements. Such notification must include, among other items, details on the AIF, its service providers and the AIF's constitutional documentation. The CSSF reviews a notification request within 20 working days, and marketing may commence from the date of the positive confirmation by the CSSF.

Material changes to the original notification must be reported at least one month in advance or, in the case of unplanned changes, immediately after these have occurred. Ongoing obligations include contin-

ued investor disclosures and updates to the CSSF. All marketing communications must be fair and clear, must not be misleading, and should describe risks and rewards in a balanced way.

AIFs may also be marketed to retail investors, subject to additional regulatory requirements.

4.5 High Net Worth or Retail Investors

Luxembourg offers several regulated fund products and distribution channels that enable broader access to alternative investment strategies for high net worth and retail investors.

For high net worth investors, SIFs and RAIFs are frequently used, as they are open to “well-informed investors”, which may also include high net worth individuals who confirm in writing their adherence to the status of well-informed investors.

For retail investors, the most notable vehicles are Luxembourg Part II funds, which are increasingly set up with an ELTIF layer. Following the recent amendment of the ELTIF Regulation, applicable from 2024, the ELTIF has strengthened its position as a go-to vehicle for asset managers seeking to open private market strategies to a broader investor base, including retail investors – not least as ELTIFs now allow the possibility to be structured as a master-feeder structure or fund-of-funds. Co-investments in an ELTIF or with an ELTIF are also allowed, making private markets more accessible beyond the institutional segment. This trend reflects a broader industry movement towards the “democratisation” of alternatives, with Luxembourg being at the forefront of this development.

For more information see **1.2 Key Trends** and **2.2 Regulatory Regime for Funds**.

4.6 Private Placements

Marketing of AIFs is often undertaken by authorised AIFMs via their dedicated EEA marketing passport.

While Luxembourg law recognises reverse solicitation – where investors independently approach the AIF or its AIFM on their own initiative without prior solicitation made by the AIF or its AIFM – sponsors should exercise caution in relying on this mechanism.

In practice, a case-by-case analysis is required. Sponsors must ensure robust documentation demonstrating that investor contact was truly initiated by the investor and that no solicitations or indirect promotions occurred. Generally, reverse solicitation shall in no case be invoked to circumvent the requirements contained in the AIFMD.

In a nutshell, sponsors should generally plan fundraising within the framework of authorised private placement regimes to mitigate regulatory risk.

4.7 Compensation and Placement Agents

Under Luxembourg law, AIFMs may be supported by placements agents. Where external professionals are engaged to assist in marketing or investor introductions, they must be appropriately licensed or authorised if their activities constitute regulated financial services, including distribution or investment advice.

The personnel of AIFMs may be compensated for fundraising or sales efforts, provided that remuneration is structured in accordance with applicable laws and regulations, aligns with the risks and responsibilities associated with the services performed, and does not encourage unnecessary risk-taking. Compensation arrangements must also comply with internal governance and conflict-of-interest policies to ensure alignment with investor interests.

4.8 Tax Regime for Investors

The tax treatment of investors in Luxembourg AIFs depends on whether the investor is resident or non-resident and on the legal form of the AIF.

For non-resident investors, Luxembourg offers a highly favourable regime. In general, there is no Luxembourg income or capital gains tax on income or gains derived from AIF interests, and no withholding tax applies to distributions from AIF (under the forms listed above) or liquidation proceeds. Exceptions may arise where the AIF invests in Luxembourg real estate or where the investor holds a substantial participation in the AIF. Holding an interest in a Luxembourg AIF generally does not, by itself, create a permanent establishment in Luxembourg, and no stamp duty applies on the issue or transfer of AIF interests.

For resident investors, taxation of income and gains from AIF investments depends on the investor's individual circumstances and tax status.

4.9 Double Tax Treaties

Luxembourg AIFs may benefit from double tax treaties, but access depends on the fund's legal form and tax status. AIFs established as corporate entities may access Luxembourg's extensive double tax treaty network (certain limitations or applicability requirements may apply). The Luxembourg tax administration has issued guidance (Circular LG-A No 61 of 8 December 2017) clarifying which AIFs may benefit from treaty access, and some treaties specifically list eligible Luxembourg fund vehicles. In addition, AIFs established under the SICAR (or RAIF-SICAR-like) regime as fully taxable companies should generally qualify for benefits under double tax treaties.

By contrast, AIFs structured as tax-transparent entities – such as SCSs or SCSps – do not generally qualify for double tax treaty benefits in their own right, as they are not regarded as taxpayers under Luxembourg law. In these cases, treaty access generally depends on the status and residence of the investor rather than the AIF itself.

4.10 Foreign Account Tax Compliance Act (FATCA)/Common Reporting Standard (CRS) Compliance Regime

Luxembourg has implemented both the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS) into domestic law. In practice, most Luxembourg AIFs qualify as reporting (foreign) financial institutions, and must therefore register with the Internal Revenue Service (IRS) for FATCA purposes and comply with reporting and disclosure obligations under both FATCA and the CRS vis-à-vis the Luxembourg tax authorities. The Luxembourg tax authorities then exchange the reported information with the IRS (for FATCA) or with other participating jurisdictions (for the CRS).

Non-compliance may trigger administrative penalties and, in the case of FATCA, may additionally result in a 30% withholding tax on certain US-source income.

4.11 Anti-Money Laundering (AML) and Know Your Customer (KYC) Regime

Luxembourg's AML/CTF regime is primarily set out in the 2004 Law, which implements successive EU AML Directives. It is complemented by CSSF Regulation No 12-02, Circular CSSF 18/698 and other sector-specific guidance. The regime applies to a broad range of professionals, including regulated AIFs and AIFMs.

Key features include the following.

- Customer due diligence (CDD): identification and verification of the identity of clients when establishing a business relationship, with enhanced customer due diligence required in situations presenting a higher risk of AML/CTF (eg, when dealing with politically exposed persons or clients from high-risk countries). Ongoing monitoring of business relationships and transactions is mandatory.
- Beneficial ownership: identification and verification of the ultimate beneficial owners and their publication in Luxembourg's central register of beneficial owners.
- Internal controls: implementation of robust internal controls, among others, through the appointment of responsible persons regarding compliance (see 2.9 Rules Concerning Service Providers), and by ensuring that members of governing bodies participate in specific ongoing training programmes and by providing/offering such programmes to employees.
- Risk-based approach: professionals are required to assess the AML/CTF risks associated with their activities, clients, services or geographic areas. Policies and procedures must be tailored accordingly.
- Suspicious activity reporting: all professionals must report suspicious transactions or activities. This obligation covers both completed and attempted transactions regardless of the amount.
- Sanctions: non-compliance can result in administrative sanctions or criminal penalties, including fines of up to EUR5 million or the withdrawal of licences/authorisations.

4.12 Data Security and Privacy for Investors

AIFMs and AIFs in Luxembourg must comply with the GDPR and with the Luxembourg law of 1 August 2018

on the organisation of the National Data Protection Commission (NDPC). Investor data collected during onboarding, AML/KYC checks, communications and ongoing reporting must be processed lawfully, fairly and transparently, with investors being informed of the purposes and legal basis for processing, as well as their rights.

In addition, the CSSF has issued guidance relevant to managers and AIFs on cybersecurity, IT risk management and outsourcing. Managers are required to establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question, including through encryption or other protective measures. Circular CSSF 17/654 (as amended) specifically governs IT outsourcing, requiring due diligence, contractual safeguards and ongoing monitoring of service providers.

Personal data breaches that may affect investors must be reported to the NDPC and, where relevant, to investors themselves. Transfers of personal data outside the EU are only permitted if adequate safeguards are in place.

4.13 Anticipated Changes for Investors

The EU recently adopted a comprehensive reform of its AML/CTF framework, with the aim of strengthening this framework, creating an EU-wide AML/CTF playing field and encouraging intensified supervisory convergence and co-operation among EU AML/CTF authorities.

Key developments include the following.

- Establishment of an authority for AML/CTF (AMLA): its creation aims at ensuring the efficient and adequate supervision of high-risk obliged entities with regard to AML/CTF, strengthening common supervisory approaches for all other obliged entities, and facilitating joint analyses and co-operation between Financial Intelligence Units (FIUs).
- A sixth anti-money laundering directive (AMLD VI): AMLD VI sets out rules on the organisation of national AML/CTF systems, clarifies the powers and co-operation of FIUs and supervisors, and strengthens cross-border collaboration.
- A single EU AML/CTF rulebook (AMLR): by replacing the Directive-based system with directly applicable regulations, the AMLR ensures that AML/CTF measures are uniformly enforced across the EU, eliminating disparities and strengthening the internal market's integrity.

Trends and Developments

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Luther

Luther is a leading business law firm established in 2010 in Luxembourg. Relying on its international network, the firm's multilingual professionals advise domestic and international clients across seven practice areas. Its clients – ranging from multinational corporations, investment funds and financial institutions to private equity firms – have placed their trust in the firm's interdisciplinary legal advice. The firm counts 27 legal advisers including eight partners, and is

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Loan Origination Funds

A key objective of the Capital Markets Union, as outlined in the Commission's Communication of 24 September 2020, *A Capital Markets Union for people and businesses – new action plan*, is to improve access to financing for companies across the European Union (EU), in particular for small and medium-sized enterprises (SMEs). Since SMEs often face structural challenges in obtaining credits from traditional banking channels, alternative sources of financing have become increasingly important.

In this context, alternative investment funds (AIFs) that engage in loan origination can play a vital role by providing fresh capital to the real economy. However, the absence of harmonised rules and the coexistence of diverging national regulatory regimes have led to supervisory arbitrage, fragmented markets, and varying levels of investor protection. This fragmentation has hindered the development of an efficient internal market for loan origination by AIFs.

The European Commission has therefore set the objective of strengthening the Capital Markets Union by creating an efficient internal market for loan origination by AIFs, ensuring a uniform level of investor protection across the Union, and allowing AIFs to expand their activities consistently across EU member states. To achieve this, the revision of Directive 2011/61/EU by Directive (EU) 2024/927 of the European Parliament and of the Council of 13 March 2024 (AIFMD II) formally recognises the right of AIFs to grant loans while introducing harmonised rules to foster cross-border activity and improve access to finance for Union companies.

AIFMD II establishes, for the first time, a dedicated European framework for loan-originating AIFs. This provides legal certainty and a harmonised basis for private credit funds across the EU. The new regime expressly recognises both open-ended and closed-ended loan-originating strategies, and sets out clear parameters for their operation, thereby facilitating access to this asset class in a regulated environment, which is expected to further boost Luxembourg's private credit space. In particular, AIFMD II sets out clear guidance as to leverage restrictions, the prohibition of "originate-to-distribute" strategies, risk retention requirements, and provisions to limit conflicts of interest. Furthermore, it is clarified that open-ended loan-originating AIFs should at least select two liquidity management tools appropriate for their purposes, to demonstrate that their liquidity risk management system is compatible with their investment strategy and redemption policy. As mandated by AIFMD II, the European Securities and Markets Authority (ESMA) developed regulatory technical standards for determining the requirements with which loan-originating AIFs must comply to maintain an open-ended structure (RTS), which further enhances predictability for market participants. According to the RTS published by ESMA on 21 October 2025 (which are still subject to endorsement by the European Commission), for each open-ended loan-originating AIF it manages, an AIFM must:

- define an appropriate redemption policy;
- ensure that the open-ended loan-originating AIF has sufficient liquidity to comply with redemption requests;

- carry out liquidity stress tests (on an annual basis) that assess both the asset and liability sides separately; and
- monitor the liquidity management on an ongoing basis to ensure that the liquidity management system remains compatible with the AIF's investment strategy and redemption policy.

Implementation of AIFMD II Into Luxembourg Law

Luxembourg is in the process of transposing AIFMD II into its national legislation. This involves (among other things) updating the amended Luxembourg law of 12 July 2013 on alternative investment fund managers. The purpose of the reform is to align Luxembourg legislation with evolving European standards. On 3 October 2025, the Luxembourg government deposited Draft Bill No 8628 to implement AIFMD II into Luxembourg law. As anticipated, Draft Bill No 8628 mainly mirrors AIFMD II without gold-plating. If implemented as such, Draft Bill No 8628 is expected to further strengthen Luxembourg's position as a leading investment funds hub by increasing legal clarity, reinforcing supervisory co-operation and ensuring consistency with related European financial legislation. Luxembourg-domiciled AIFs and their managers must carefully observe these developments and adjust to the new legislative measures, where required (including as regards transfer pricing policies).

New Carried Interest Tax Regime

As part of its ongoing efforts to strengthen Luxembourg's appeal for fund managers and sponsors, and to address certain gaps in the existing framework, the Luxembourg government recently introduced a new bill of law aimed at modernising the carried interest tax regime.

Under the proposed legislation – which, if adopted, would take effect from the 2026 tax year – carried interest would benefit from significantly more favourable tax treatment. Specifically, contractual carried interest – meaning amounts not linked to an equity participation – would be taxed at only one quarter of the standard progressive income tax rate, resulting in a maximum effective tax rate of approximately 11.45%. In parallel, participation-linked carried interest could be fully exempt from taxation, provided that the par-

ticipation has been held for more than six months and does not exceed 10% of the overall participations.

The bill also expands the scope of eligible beneficiaries under the regime. Whereas the current rules largely apply to employees, the revised framework would extend eligibility both to employees and to non-employees.

Taken together, these measures reinforce Luxembourg's competitive positioning in the international fund landscape, and provide fund managers and sponsors with a more predictable and tax-efficient framework for structuring carried interest.

Revival of Regulated Fund Structures

A trend towards regulated vehicles and the opening of alternative strategies to retail investors is observable, a development that is strongly supported by the revised European Long-Term Investment Fund (ELTIF) framework. The new ELTIF regime, applicable since January 2024 and supplemented by Commission Delegated Regulation (EU) 2024/2759 of 19 July 2024, has significantly strengthened the appeal of ELTIFs by broadening the range of eligible assets, introducing greater flexibility in diversification requirements, concentration and borrowing rules and expanding structuring options (including ELTIF fund-of-fund and master-feeder structures). This modernised framework has rapidly translated into market uptake: 2024 alone saw a record 55 new ELTIFs launched, of which 37 were domiciled in Luxembourg. With 131 of 221 ELTIFs established in Luxembourg to date, the jurisdiction clearly consolidates its position as the leading European hub for ELTIFs.

Additionally, as of April 2025, a new “e-Identification” system replaces the existing VISA procedure for prospectuses of undertakings for collective investment in transferable securities (UCITS), Part II UCIs, investment companies in risk capital (SICARs) and specialised investment funds (SIFs), featuring a new unique identification number and e-Identification date. This new system aims to streamline administrative procedures and enhance efficiency for the benefit of market participants. The new electronic VISA “stamp” procedure is expected to significantly reduce approval timelines, thereby underscoring Luxembourg's regulatory

agility and its commitment to maintaining an attractive and competitive framework for investors, as well as for regulated AIFs.

On 6 March 2025, the *Commission de Surveillance du Secteur Financier* (CSSF) published a communication regarding the implementation of a new “e-Identification” system, replacing the existing VISA procedure for prospectuses of UCITS, Part II UCIs, SICARs and SIFs. Fund prospectuses will now visibly showcase a unique identification number and an e-Identification date on their first page.

The transition will occur through the dedicated eDesk e-Identification Prospectus application and will apply to submissions of any new or revised fund prospectus. Additionally, the CSSF will change its administrative procedures through the establishment of a new catalogue of prospectus amendments that do not legally require authorisation and prior review by the CSSF. An additional guide was subsequently also published by the CSSF, including details on the new procedure, a list of amendments to the prospectus (which do not legally require authorisation and prior review by the CSSF), the applicable conditions, a technical part to facilitate IT and operational implementation, and an FAQ section. The new guidelines modernise administrative procedures for the benefit of market participants, while at the same time emphasise the responsibility of each fund’s governing body to ensure regulatory compliance.

Omnibus Simplification Package

On 26 February 2025, the European Commission presented the “Omnibus I” Simplification Package to ease sustainability reporting and due diligence rules under:

- the Corporate Sustainability Reporting Directive – formally Directive (EU) 2022/2464 of the European Parliament and of the Council on sustainability reporting by companies (CSRD);
- the Corporate Sustainability Due Diligence Directive – formally Directive (EU) 2024/1760 of the European Parliament and of the Council on corporate sustainability due diligence (CSDDD); and
- Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a

framework to facilitate sustainable investment (the “Taxonomy Regulation”).

Under the CSDDD, compliance for the largest companies is delayed by one year, to mid-2028. The Council of the EU confirmed the 1,000-employee threshold under the CSRD but added a EUR450 million turnover requirement and introduced a review clause. For the CSDDD, it raised thresholds significantly to 5,000 employees and EUR1.5 billion turnover, limiting obligations to very large companies. In parallel, the European Parliament’s rapporteur has proposed even higher, uniform thresholds across all three laws, the removal of mandatory climate transition plans, and greater harmonisation of sustainability standards to reduce compliance complexity. The Parliament is expected to adopt its position in autumn 2025, followed by trilogue negotiations with the Council and Commission.

While focused on the CSRD and CSDDD, the Omnibus is widely regarded as a stepping stone towards the anticipated revision of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR). In May 2025, the European Commission launched a “Call for evidence for an impact assessment”, which forms part of a comprehensive review of the SFDR and has included public and targeted consultations, technical workshops, and engagement with member states. The forthcoming proposal (expected for Q4 2025, but which might only be finalised following the publication of the Omnibus package to ensure consistency with the CSRD and CSDDD) is expected to streamline sustainability classifications and disclosure requirements, thereby reducing complexity, enhancing comparability and providing fund managers with a more coherent framework for integrating sustainability into their strategies.

Secondaries

The interest in the fund secondaries market has continued to increase in recent years, for a number of reasons. The Luxembourg funds market is well established in this respect, with one trend being the use of continuation funds. Through the introduction of EM3S, the Luxembourg Stock Exchange (LuxSE) has now

created a new listing pathway designed to foster a robust market for long-term investments. EM3S enables the creation of a genuine secondary market for investment funds, allowing investors to exit by trading their positions rather than relying on traditional redemption mechanisms. This eliminates the need for liquidity management tools and provides funds with access to capital while safeguarding confidential investment strategies, thereby preserving their competitive edge.

By offering true tradeability, EM3S strengthens Luxembourg's position as a hub for structured, long-term investment funds. It provides a viable alternative to illiquid or semi-liquid evergreen structures, specifically tailored to professional investors, such as family offices, institutional investors and pension funds.

For functional liquidity under EM3S, several prerequisites must be in place. Effective collaboration with market makers is essential to ensure fair price formation and transparency. Targeted portfolio disclosure is needed to provide investors with the information required for sound decision-making. In addition, political recognition of secondary markets as legitimate exit channels is critical to strengthening confidence in the system. Finally, comprehensive investor education on both the mechanisms and the benefits of EM3S is necessary to support informed participation and long-term adoption.

In summary, EM3S marks a significant step forwards in enhancing liquidity, transparency and investor confidence in Luxembourg's long-term investment fund landscape and notably adds further flexibility for investors.

Crypto-Assets

On 6 February 2025, Luxembourg adopted a new law adapting its national framework to the Markets in Crypto-Assets Regulation (Regulation (EU) 2023/1114; MiCAR) (the "2025 Law"). While MiCAR applies directly across all EU member states, Luxembourg's law ensures effective enforcement by designating the CSSF as the competent authority. The CSSF is now notably empowered to license crypto-asset service providers and inspect their operations.

Under MiCAR, issuers of crypto-assets must publish a comprehensive White Paper outlining the technical design, governance model and risks associated with each offering. Stablecoin issuers are subject to especially rigorous requirements, including reserve management and operational safeguards, to protect users and ensure financial stability. Meanwhile, service providers such as custodians and brokers must meet strict standards of conduct, safeguard client assets, and apply anti-money laundering and counter-terror financing (AML/CTF) checks. Importantly, operators facilitating transactions from self-hosted wallets – while not directly regulated under MiCAR – are brought within scope by the revised Transfer of Funds Regulation when transfers exceed EUR1,000, thereby triggering mandatory due diligence. To allow a smooth transition, Luxembourg's existing virtual asset service providers have until July 2026 to migrate fully to the MiCAR regime.

In parallel, the 2025 Law also incorporates the European Green Bonds Regulation (Regulation (EU) 2023/2631; EuGBR) into Luxembourg's supervisory framework. The EuGBR establishes a voluntary EU-wide standard for issuers seeking the "European Green Bond" label. As a result, issuers of blockchain-based green instruments can now benefit from a clear framework that combines strengthened disclosure standards with independent external review. By aligning the EuGBR with MiCAR, Luxembourg makes it possible for digital assets and tokenised securities to qualify as official European Green Bonds. This ensures that blockchain-issued bonds are not only legally recognised but may also carry the EU's trusted green label, giving investors both strong protections and verified sustainability credentials. In doing so, Luxembourg positions itself at the forefront of digital innovation and sustainable finance, strengthening its role as a leading hub for the future of green investment.

Alongside MiCAR, Luxembourg has also advanced work on implementing DAC8, the EU Directive aimed at extending automatic tax information exchange to the field of crypto-assets. On 24 July 2025, the government published Draft Law 8592, which lays out the framework for this transposition. Under the proposal, crypto-asset service providers and other intermediaries will be required to report detailed informa-

tion on customer transactions – including transfers, exchanges and certain payments – to the national tax authorities. The first reporting obligations will begin in January 2026, with data covering that year exchanged with other EU tax administrations by September 2027.

Service providers will be obliged to register with Luxembourg's tax administration by June 30th each year in order to file their reports for the previous calendar year. Penalties for non-compliance are significant: EUR5,000 for a failure to register or submit information, and up to EUR250,000 for shortcomings in due diligence, data collection or reporting accuracy. The scope of DAC8 is intentionally broad, encompassing not only mainstream cryptocurrencies but also stablecoins, tokenised securities and other forms of digital assets traded via distributed ledger technology.