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Luxembourg government publishes AIFMD II draft law

3 October 2025 was a day of transition in Luxembourg: While His Royal Highness Grand Duke Guillaume formally succeeded his father, Grand Duke Henri, marking a historic moment for the country, the Luxembourg government also deposited Draft Bill No. 8628 ("AIFMD II Draft Law") to implement AIFMD II into Luxembourg law, marking a milestone for Luxembourg's investment funds industry.

Background

AIFMD II, adopted in March 2024, is the EU's response to evolving market practices and supervisory experience since the original AIFMD's entry into force in 2011. Rather than overhauling the existing framework, AIFMD II aims to address identified gaps, enhance supervisory convergence, and further harmonize rules across Member States. Notably, AIFMD II introduced targeted reforms in areas such as loan origination by funds, liquidity management for open-ended funds, delegation arrangements, and depositary functions.

Key Features of the Draft Law

The AIFMD II Draft Law closely follows the text of AIFMD II and proposes amendments to both the amended law of 12 July 2013 on alternative investment fund managers (AIFM law) and the amended law of 17 December 2010 relating to undertakings for collective investment (UCITS law). Key features include:

- Loan Origination Framework: The Draft Law introduces a dedicated regime for loan-originating alternative investment funds (AIFs) into Luxembourg law (with the exception of granting loans to consumers / managing loans granted to consumers by managers), including requirements on risk retention, leverage limits, and credit assessment procedures. While loan origination by funds was long market practice in Luxembourg, an EU-wide loan origination framework is expected to further boost the Luxembourg private debt market for AIFs as this will facilitate the marketing of private debt funds within the EU.

- Liquidity Management Tools: For open-ended AIFs and UCITS, managers will be required to select at least two appropriate liquidity management tools to better manage market stress situations. Additionally, managers will be required to implement detailed policies and procedures for the activation and deactivation of any selected liquidity management tools and to define the administrative and operational terms and conditions for the use of such tools.

- Delegation and Reporting: The AIFMD II Draft Law enhances transparency around delegation arrangements – especially where substantial functions are delegated outside the EU – and introduces new notification requirements.

While most features were already anticipated, the AIFMD II Draft Law provides additional clarifications and interpretive guidelines, therefore providing further legal certainty for fund managers and other market participants.

Next steps

The AIFMD II Draft Law will now go through Luxembourg's legislative process. Luxembourg is required to implement AIFMD II by 16 April 2026, except for certain reporting obligations which shall apply from 16 April 2027 only.

Fund managers are encouraged to review their current structures - particularly those involving loan origination or complex delegation models - and begin preparing for compliance with the forthcoming changes.

For further information and assistance with the legal and regulatory compliance with the obligations arising from the AIFMD II Draft Law, please feel free to reach out to the contacts listed on this article or your usual Luther S.A. contact.

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