AIFMD 2.0: Benefits for loan origination in private credit

*As the industry adapts to the changes AIFMD 2.0 will bring, it is crucial to understand what the implications and opportunities for loan origination activities across Europe will be in private credit. **Andrew Tully** and **Angel Ramon Martinez Bastida** run through these changes and the outlook for these activities*

The European asset management industry is on the brink of a significant transformation with the introduction of AIFMD 2.0. The revised version of the Alternative Investment Fund Management Directive (AIFMD) aims to harmonise the framework for loan origination activities across the European Union and this will impact the private credit space.

Key changes under AIFMD 2.0

The Directive introduces a new regime for alternative investment funds (AIFs) engaged in loan origination activities. This regime applies to both loan-originating AIFs and those which originate a loan. The difference is the former has an investment strategy to mainly originate loans or where the notional value of the AIF's originated loans represents at least 50% of its net asset value (NAV), while the latter are those that may originate loans occasionally but do not have loan origination as their main investment strategy.

The Directive defines loan origination as the granting of a loan directly by an AIF or indirectly through a third party or special purpose vehicle (SPV) that originates a loan for or on behalf of the AIF.

The AIFMD 2.0 loan origination amendments will come into effect in a year, on 16 April 2026. This is after a 24-month transposition period following the Directive's entry into force on 15 April 2024.

The Directive's main rules

AIFMD 2.0 aims for a well-structured framework around loan origination, therefore this opportunity comes with some rules that private managers will need to respect:

- **Prohibition of "originate to distribute" strategies** – AIFs will be prevented from originating loans solely for the purpose of selling them to third parties.
- **Leverage and concentration limits** – AIFMs must ensure that the leverage of an AIF does not exceed specified thresholds, and there will be concentration limits on loans to a single borrower.
- **Asset retention** – AIFs will need to retain a portion (5%) of the notional value of each loan they have originated and transferred to third parties, unless the sale is made under specific permitted scenarios.
- **Closed-ended funds** – a loan-originating AIF must be closed-ended unless the AIFM managing it can demonstrate to the regulator that the AIF's liquidity risk management system is compatible with its investment strategy and redemption policy.
- **Disclosure and transparency** – loan-originating AIFs will need to disclose all costs and expenses linked to the administration of the loans to investors. Specific disclosures will need to be made on the portfolio composition of the originated loans.
- **Governance** – AIFMs will need to comply with several rules, including having effective policies, procedures, and processes for assessing credit risk and administering their loan portfolio.

These rules aim to enhance risk management and increase transparency for investors, ultimately contributing to the stability of the EU financial markets.

Opportunities in private credit

The harmonisation of loan origination rules under AIFMD 2.0 presents several opportunities for the private credit market. Firstly, the introduction of a cross-border loan origination passport for EU AIFMs will allow EU AIFs to lend across different EU jurisdictions, fostering greater market integration and access. This passport, although dependent on national implementation, has the potential to streamline cross-border lending and expand the reach of private credit funds.

Here are 5 ways fund managers can realise the opportunities:

1. Cross-border lending – fund managers can now originate loans in multiple jurisdictions without facing inconsistent regulations. This means, for example, a private credit fund based in Ireland can offer cross-border lending services across multiple EU countries without having to manage inconsistent regulations.

2. Access to new markets – with a unified regulatory framework, fund managers can seek out varied investment opportunities and diversify their portfolios.

3. Enhanced investor confidence – investors may be more willing to invest in funds that operate under a clear and consistent regulatory regime and there has been an increased interest from institutional investors as the new standard regulatory framework offers greater transparency and consistency.

4. Operational efficiency – There is potential for reduced compliance costs and administrative burdens for fund managers. This efficiency can translate into better fund performance and more competitive offerings, especially when coupled with technology solutions like automating investor statements and notices.

5. Innovation in fund structures – The new regime allows for more flexibility in fund structures, enabling fund managers to develop innovative products tailored to specific investor needs and market conditions. For example, the EU Innovation Fund supports structures aimed at financing clean energy projects.

For Luxembourg and Ireland, the new framework, provides an opportunity for the two jurisdictions to align their existing domestic loan origination rules with AIFMD 2.0, further solidifying their reputation as leading domiciles for loan origination funds in the EU.

How Aztec can support

At Aztec Group, we offer a robust framework for managing loan origination activities, ensuring compliance with the new requirements and enhanced risk management practices. Our team of experts can help clients navigate the complexities of the Directive and maximise the benefits of the harmonised loan origination framework. Our dedicated Loan Servicing Unit is equipped with the expertise and resources to ensure clients can benefit from tailored solutions that address their specific needs and objectives.

Our comprehensive understanding of the Directive as a whole and its implications also allows us to provide expert guidance and support to our clients across depositary and regulatory reporting, and our presence in Luxembourg and Ireland enables us to provide seamless cross-border services, leveraging the new loan origination passport to expand our clients' access to diverse markets wherever they are in the world.

Read our comprehensive guide for U.S. fund managers raising funds in Europe here.

Aztec Group has invested heavily in redesigning our private credit offering into a product that we feel truly differentiates us in the private credit servicing environment. If you'd like to discuss how our private credit team can deliver for you or your clients, please contact us below.