Why Circular CSSF 25/901 is a significant regulatory shift for Luxembourg's private markets

The publication of Circular CSSF 25/901 marks a decisive moment for Luxembourg's alternative investment sector. Overall, it changes the supervisory environment for those managing common structures with the emphasis on proving compliance throughout the fund lifecycle. ***Abdelhak Kembouche*** *explains the main changes, what managers need to do now, and the opportunities that this Circular brings.*

While introduced under the banner of consolidation and modernization, Circular CSSF 25/901 goes far beyond administrative tidying up. It represents a significant revision of how Luxembourg's regulator expects SIFs, SICARs and Part II UCIs to articulate, execute, and evidence their investment strategies. For Boards, AIFMs and Conducting Officers, it signals a shift toward a more structured, disciplined and transparent supervisory environment – one where principles that once tolerated interpretation now require demonstrable proof of compliance.

The Circular entered into force in December 2025. However, its rules do not apply to closed-ended funds that were already authorized before that date. Open-ended funds authorized before the entry into force may continue applying their existing rules until their next prospectus update, at which point they can choose to align with the new framework. Any new funds created after 19 December 2025 must comply with the Circular from day one.

Main changes

1. A unified, modernised framework

Circular CSSF 25/901 replaces a patchwork of historic texts with a single, coherent governance and product framework. This consolidation is not merely administrative; it represents a new regulatory philosophy. By harmonizing terminology and expectations across fund categories, the Circular strengthens comparability, reduces interpretive ambiguity and enables the regulator to apply

supervisory principles more consistently.

This unified framework also introduces a more structured articulation of investment intent. Strategy descriptions can no longer rest on generic labels or broad asset class references. Managers must now demonstrate the rationale behind their strategy, how it fits within the SIF, SICAR or Part II UCI perimeter, and what internal controls ensure alignment throughout the fund's lifecycle. This means clearer rules of engagement, more transparent methodologies and a more predictable supervisory dialogue.

2. Risk spreading becomes explicit, measurable and continuous

One of the most transformative elements of the Circular is the move from qualitative principles to quantified diversification thresholds, calibrated to the investor base:

- **25%** maximum exposure for retail accessible products
- **50%** for funds distributed only to professional or well-informed investors
- Higher allowances for infrastructure investments (5**0%** if distributed to retail investors and **70%** if distributed to professional or well-informed investors) and funds of funds (if the underlying meets an equivalent **50%** cap).

This introduces both clarity and obligations, and ramp-up and wind-down periods are also formalized, offering flexibility tailored to the nature of the strategy. However, these periods must be justified and monitored, ensuring that temporary deviations from target diversification remain reasonable and well controlled.

3. Governance expectations are raised: Boards must demonstrate active oversight

Circular CSSF 25/901 strengthens the responsibilities of Boards and managers, making their oversight role more explicit and more demanding. Decision-makers must be able to demonstrate:

- Understanding of the strategy's regulatory positioning;
- Active review of concentration risk, leverage and liquidity;

- Scrutiny of intermediary vehicle structures;
- Challenge of deployment, divestment and exit assumptions; and
- Engagement with risk spreading and risk capital limitations.

The Circular effectively formalizes supervisory expectations that have been implicit for years: governance bodies must be knowledgeable, involved and able to articulate how regulatory obligations translate into operational reality.

This heightened oversight requirement also demands stronger documentation, including rationale notes, approval trails, scenario analyses and periodic reporting to the Board. In a more evidence driven world, well-kept records become a regulatory asset.

4. SICARs: A sharpened definition of "risk capital"

For SICARs, the Circular clarifies the concept of risk capital, placing emphasis on development intent and active value creation, as well as a credible exit plan.

To qualify, investments must exhibit:

- A clear intention to develop the target;
- Specific risk beyond general market exposure;
- Governance involvement or value creation initiatives; and
- Financing aligned with the evolution of the target entity.

Passive ownership structures – especially those relying solely on financial engineering or holding company arrangements – will find it harder to justify SICAR eligibility. Exit strategies must be explicit, realistic and aligned with the investment thesis, reinforcing the timebound, development driven nature of the regime.

5. Transparency, investor protection and operational resilience

Transparency obligations are significantly strengthened. Policies, offering documents and internal procedures must now explicitly detail:

- Asset classes and investment techniques;
- Use and structure of intermediary vehicles;
- Borrowing and leveraging frameworks;
- Liquidity management and redemption tools;
- Treatment of temporary cash; and
- Conflicts of interest and calculation methodologies.

These requirements demand deeper alignment between investment, risk, compliance and operations, ensuring that disclosures match actual practice and that supervisory expectations are met across all functions.

This shift also enhances investor protection. For long-life structures or funds with multi-year lockups, disclosures must make illiquidity risks and redemption constraints transparent and proportionate to the target investor base.

What managers need to do now

As Circular CSSF 25/901 moves from publication to implementation, managers must address four priority areas:

A. Documentation upgrade

Prospectuses, PPMs, policies and risk frameworks will need restructuring to reflect the Circular's detailed expectations. Generic or high-level statements must be replaced with precise descriptions, thresholds, methodologies and controls.

B. Governance reinforcement

Boards must adopt more rigorous oversight mechanisms, including concentration dashboards, liquidity trend analyses, leverage monitoring tools and periodic deep dive reviews.

C. Operational integration

Risk spreading monitoring, look through analysis, exposure aggregation and exception logging will require robust operational processes and enhanced data flows.

D. Training and culture

Teams across portfolio management, risk, compliance and operations must internalise the Circular's logic. Training becomes essential to ensure consistent application across functions.

An opportunity for Luxembourg

Circular CSSF 25/901 makes Part II UCIs, SIF and SICAR more attractive and strengthens Luxembourg's broader alternatives ecosystem, with RAIFs using these frameworks as benchmarks. While it raises compliance expectations, it delivers clearer rules, modernised flexibility and more coherent governance standards. For managers willing to adapt early, it is an opportunity to strengthen governance, build investor trust, reduce interpretive risk, harmonize processes and align with evolving European supervisory trends. A strategic reset for managers that can translate into real competitive advantage.

How Aztec can help

The regulatory bar continues to rise, and early preparation will be key to avoiding last-minute challenges and ensuring filings are accurate, complete, and audit ready. Choosing an experienced and knowledgeable partner like the Aztec will help ensure that your operations are fully aligned to the requirements of the Circular.

If you want to discuss any of the points raised here, how these will affect your operations, and how the Aztec can assist with the changes, please contact us directly.

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