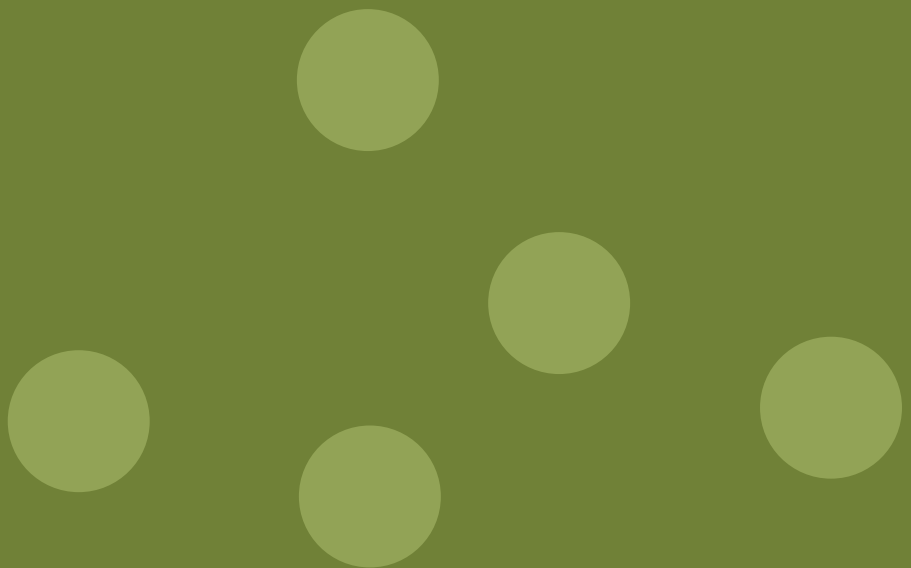


# AIFMD II: Key Changes to the EU AIF Framework

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Over recent years, the alternative investment funds (“AIFs”) market in the European Union has experienced significant growth. Due to this growth, and while the objective of safeguarding investor protection has been achieved at large, the need for further regulatory improvements to the framework governing alternative investment fund managers (“AIFMs”) was present.

To address the concerns, the European Union adopted a revised regulatory framework through Directive (EU) 2024/927 of the European Parliament and of the Council, amending Directives 2011/61/EU and 2009/65/EC (“the Directive”). The updated framework introduces a series of targeted amendments for AIFMS addressing, inter alia, delegation arrangements, depositary services, and loan origination funds. At the same time, the directive introduces changes to the regulatory regime governing Undertakings for Collective Investment in Transferable Securities (UCITS), with the aim of enhancing consistency between the frameworks applicable to UCITS management companies and AIFMs.

By April 2026, each Member State shall adopt and publish the relevant laws, regulations and administrative provisions which are necessary to comply with the new Directive. At the same time, AIFMs shall ensure that their operational and compliance frameworks are updated to comply with the new obligations introduced by the Directive.

### **Key Highlights of AIFMD II**

The revised AIFMD directive, commonly referred to as AIFMD II does not replace the existing regulatory framework but instead seeks to refine and strengthen specific areas, where practical experience has revealed gaps or inefficiencies.

#### **i. Expansion of scope of activities**

AIFMD II expands the list of ancillary services that AIFMs are permitted to provide, with the aim to increase their operational efficiency and enable greater diversification of their business activities.

In particular, AIFMs may now also provide:

- The administration of benchmarks in accordance with Regulation (EU) 2016/1011; and
- Credit servicing activities in line with Directive (EU) 2021/2167 on credit servicers and credit purchasers.

#### **ii. AIFM Authorisation and Substance Requirements**

AIFMD II strengthens governance and substance requirements of AIFMs, since they are required to provide competent authorities with detailed information regarding the individuals responsible for conducting their business.



In particular, an AIFM must be managed by at least two natural persons who:

- reside in the European Union; and
- work on a full-time basis, either as employees or as executive members of the governing body.

In addition, the directive encourages the appointment of at least one independent or non-executive director, subject to applicable national laws and industry standards. Such a director is expected to act independently and possess sufficient expertise and experience to contribute to the sound decision-making.

The changes introduced emphasise on substance over form, particularly for jurisdictions such as Cyprus which host a significant number of cross-border structures. Cyprus-based AIFMs may need to further enhance local substance, which could impact business models that rely heavily on delegation or complicated group structures.

### **iii. Delegation Arrangements**

AIFMD II introduces important amendments to Article 20 of the directive, further clarifying the rules governing delegation arrangements.

The revised provisions cover the delegation of one or more core functions listed in Annex I, as well as the services referred to in Article 6(4). AIFMs are required to provide more detailed information regarding their delegates and the structure of delegation arrangements. These enhanced reporting obligations aim to ensure that AIFMs retain effective control over their core functions and remain fully accountable for activities carried out by third parties.

### **iv. Depositary services**

Another important reform of the AIFMD II concerns the appointment of a depositary. Based on the previous legal framework, AIFs were generally required to appoint a depositary located in the same Member State as the AIF.

Subject to the Member States' discretion, AIFMD II now allows AIFs to appoint depositaries established in other Member States, based on the following conditions, assessed on a case-by-case basis:

- a) the competent authorities have received a reasoned request from the AIFM to allow the appointment of a depositary established in another Member State and that request demonstrates the lack of depositary services in the home Member State of the AIF that are able to meet effectively the needs of the AIF having regard to its investment strategy; and
- b) the aggregate amount in the national depositary market of the home Member State of the AIF of assets entrusted for safe-keeping, on behalf of EU AIFs authorised or registered under the national law and managed by an EU AIFM does not exceed EUR 50 billion or the equivalent in any other currency.



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The possibility to appoint a depositary located in another Member State introduces greater flexibility, which may be particularly relevant in smaller markets such as Cyprus where local availability is limited.

#### **v. Loan Origination Funds**

One of the most significant developments introduced by AIFMD II is the establishment of a harmonised framework governing loan origination by AIFs.

This initiative is intended to support the development of a more efficient internal market, enhance access to financing for EU companies, and address potential systemic risks associated with lending activities conducted by alternative investment funds.

Under the directive, loan origination is defined as the granting of loans either:

- directly by an AIF, acting as the original lender; or
- indirectly, through a third party or special purpose vehicle acting on its behalf, where the AIF or AIFM is involved in structuring the loan or pre-agreeing its key characteristics.

An AIF will be classified as a loan-originating fund where:

- its investment strategy primarily involves originating loans; or
- loans represent at least 50% of its net asset value.

To safeguard financial stability, the directive introduces a range of risk mitigation measures, including:

- Leverage limits, with a distinction between open-ended and closed-ended funds; and
- Requirements ensuring that loans are granted solely for the purpose of investing the AIF's capital in accordance with its investment strategy and applicable regulatory constraints.

Importantly, Member States retain the discretion to impose stricter rules for specific categories of AIFs where deemed necessary.

#### **Conclusion**

AIFMD II represents a significant step in the evolution of the EU regulatory framework for alternative investment funds, since it focuses on targeted improvements designed to enhance transparency, strengthen investor protection, and address emerging risks.

For AIFMs in Cyprus, the revised framework presents both challenges and opportunities. While increased regulatory scrutiny and reporting obligations may require operational and compliance adjustments, the expanded scope of permitted activities and the harmonisation of rules, particularly in areas such as loan origination, offer new paths for growth and diversification of AIFMs' business.



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