

ESMA consults on open-ended loan originating AIFs

December 2024

What is ESMA consulting on?

On 12 December 2024, ESMA published a consultation setting out conditions that it proposes AIFMs managing open-ended loan origination funds must take into account for the purposes of liquidity management ([Consultation](#)).

As readers may be aware, a new common set of EU rules for AIFMs managing loan origination AIFs comes into effect in April 2026. Under the new rules, loan-originating AIFs must be structured as closed-ended funds unless the AIFM can satisfy its home regulator that its liquidity management approach is aligned with the investment strategy and redemption policy of the relevant fund.

A loan-originating AIF can therefore be structured as an open-ended fund (**Open-Ended Loan Origination Fund**) once relevant conditions have been satisfied.

What is a loan-origination AIF?

Under the framework, loan-originating AIFs are AIFs whose investment strategy is mainly to originate loans or where the notional value of the AIF's originated loans represents at least 50% of its net asset value.





The Consultation seeks feedback on ESMA's proposed approach in developing these conditions for Open-Ended Loan Origination Funds.

What has it proposed?

The Consultation focuses on the following four elements for Open-Ended Loan Origination Funds:

Appropriate redemption policy

Factors that ESMA propose should be taken into account when establishing an appropriate redemption policy include :

- targeted credit quality of the loans;
- amount of liquid assets held by the fund; and
- expected incoming cash flows of the portfolio.

Amount of liquid assets to be maintained

Factors that ESMA propose should be taken into account when determining the appropriate amount of liquid assets which should be maintained to cover liabilities include:

- underlying exposures of the loans to be granted;
- expected cash flow generated by the loans granted;
- maturity and number of loans granted;
- estimated defaults and rescheduling; and
- any targeted level of leverage and related financial obligations.

Type and frequency of liquidity stress testing to be carried out

ESMA has proposed that liquidity stress testing should generally be performed at least on a quarterly basis. Assets and liabilities of the relevant fund should be stress tested separately and the AIFM should use a range of potential conservative scenarios (including those with low probability but high impact on the ability of the AIFM to value the loan) when performing such stress testing.



Monitoring of liquidity management system

ESMA proposes that certain parameters should be monitored by the relevant AIFM to ensure that the liquidity management system remains compatible with the investment strategy and the redemption profile of the Open-Ended Loan Originating Fund including:

- level of liquid assets;
- expected cash flows and potential future liabilities;
- repayment schedules; and
- early signals of possible defaults.

Next steps

Interested stakeholders should provide feedback on or before **12 March 2025** via the [ESMA portal](#).

ESMA must then consider feedback received and provide its advices to the European Commission by Quarter 3/Quarter 4 2025.

If you have any questions arising from this briefing, please get in touch with any of the authors or your usual contact in the Dillon Eustace Asset Management and Investment Funds team.

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