

AIFMD II: From Regulatory Evolution to Operational Reality

What the revised directive means for alternative investment managers

The revised Alternative Investment Fund Managers Directive (**AIFMD II**) marks the most significant update to Europe's alternative investment regulatory framework since its introduction in 2011. The directive entered into force in April 2024, with Member States required to implement it by **April 2026**.

However, this is not a wholesale rewrite. AIFMD II is better understood as a targeted evolution, designed to address specific areas where regulators have observed inconsistency, risk accumulation, or supervisory blind spots.

Its true significance lies not in the scale of legal change, but in the shift in regulatory expectations. Whilst EU-Authorised AIFMs are in scope, there are practical implications for Non-EU managers such as UK-based managers.

Where AIFMD I focused on establishing a framework, AIFMD II focuses on ensuring that framework is:

- Operationally credible
- Consistently applied across jurisdictions
- Supported by data, governance and evidence

For firms, this means moving from compliance design to demonstrable implementation.

A Directive Shaped by Market Evolution

Since AIFMD I was introduced, the alternative investment landscape has changed significantly. Three developments have been particularly influential:

1) Growth of Private Credit	Alternative funds have become a major source of lending to the real economy, particularly for SMEs. This has created both opportunity and regulatory concern, particularly around: • Leverage • Risk concentration • Alignment of incentives
2) Increasing Reliance on Delegation	Cross-border operating models—particularly those involving portfolio management delegation—have become standard practice. This has raised questions around: • Substance • Control • Accountability
3) Liquidity Stress Events	Market dislocations have highlighted weaknesses in liquidity management, particularly for open-ended funds investing in less liquid assets.

AIFMD II directly targets these three areas.

AIFMD II in Context: Evolution, Not Revolution

At its core, AIFMD II introduces targeted enhancements across six key pillars:

- Loan origination.
- Liquidity management.
- Delegation and substance.
- Governance and staffing.
- Depositary framework.
- Reporting and transparency.

Loan Origination: Bringing Private Credit into the Regulatory Core

Perhaps the most substantive change is the introduction of a harmonised EU framework for loan-originating funds. Historically, loan origination by funds has been subject to fragmented national rules. AIFMD II seeks to address this by creating a consistent baseline across the EU.

Key requirements include:

- **Leverage limits**
 - 175% of NAV (open-ended funds) and 300% of NAV (closed-ended funds)
- **Risk retention**
 - A minimum 5% retention of each loan.
- **Borrower restrictions**
 - Prohibitions on lending to certain connected parties.
- **Enhanced credit processes**
 - Formalised risk assessment and monitoring frameworks.

Why this matters

This is not just a technical change. It represents a shift toward:

- Treating private credit as a systemically relevant activity.
- Aligning incentives between managers and investors.
- Increasing transparency and discipline in lending practices.

NRS View:

For firms, the key challenge will be aligning existing credit processes with regulatory expectations that are now:

- *More prescriptive*
 - *More comparable across jurisdictions*
 - *More visible to supervisors*
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Liquidity Management: From Frameworks to Functionality

AIFMD II significantly strengthens expectations around liquidity risk management—particularly for open-ended funds. Managers are now required to select at least two liquidity management tools (LMTs) and ensure they are appropriate to the fund’s structure and strategy.

Examples include:

- Redemption gates.
- Swing pricing.
- Redemption fees.
- Suspension mechanisms.

The key shift

Under AIFMD I, liquidity tools were often treated as contingency mechanisms but Under AIFMD II, they must be:

- Pre-selected and justified.
- Embedded in governance frameworks and supported by clear activation processes.

Regulatory focus

Supervisors are likely to ask:

- Can these tools be used in practice, under stress?
- Is there clear decision-making authority?
- Are investors appropriately informed?

NRS View:

This reflects a broader trend toward stress-tested governance, rather than theoretical compliance.

Delegation and Substance: Reinforcing the “No Letter-Box” Principle

Delegation remains a cornerstone of the European asset management model. AIFMD II does not restrict it—but it does tighten expectations around oversight and substance. The directive reinforces the long-standing principle that AIFMs must not become “letter-box entities,” meaning they must retain:

- Real decision-making capability.
- Effective oversight of delegated functions

What’s changing?

- Increased transparency in regulatory reporting of delegation arrangements.
- Greater scrutiny of:
 - Oversight processes.
 - Resource allocation.
 - Governance structures.

Regulators will be testing not just if delegation exists but if control does genuinely sit with the AIFM and that oversight is active, not just procedural. More generally they will be looking to see that governance reflects operational reality.

NRS View:

This is a subtle but important shift toward substance over structure.

Governance and Staffing: Demonstrating Real Operational Presence

AIFMD II also strengthens expectations around governance and staffing arrangements, including:

- A requirement for at least two senior individuals to direct the AIFM.
- Increased emphasis on local substance within the EU.

This reflects regulatory concern that some structures may appear compliant on paper but lack meaningful operational capability.

NRS View:

Governance frameworks must:

- *Align with actual business activity*
 - *Demonstrate clear accountability and oversight*
 - *Be supported by appropriately senior and experienced individuals*
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Depository Framework: Flexibility Without Dilution

AIFMD II introduces targeted changes to the depository regime, including:

- Improved cross-border access to depository services.
- Clarification of roles and responsibilities.

However, this flexibility does not reduce expectations around:

- Asset protection.
- Oversight.
- Accountability.

NRS View:

The message is clear: Efficiency gains must not come at the expense of investor protection.

Reporting and Transparency: The Rise of Data-Led Supervision

AIFMD II also reflects a broader regulatory shift toward data-driven supervision.

Enhancements include:

- More granular reporting on:
 - Loan origination.
 - Delegation.

- Risk exposures.
- Greater alignment with other EU reporting frameworks.

This will require firms to:

- Strengthen data governance and quality controls.
- Improve coordination across functions.
- Ensure reporting is accurate, consistent and defensible

NRS View:

Increasingly, data quality is becoming a regulatory risk in its own right.

Beyond the EU: Why AIFMD II Matters Globally

Although AIFMD II is an EU directive, its impact extends beyond EU-authorised firms.

In particular:

- Non-EU managers marketing into the EU will be affected
- UK firms with EU exposure (such as accessing EU investors via NPPR regimes, operating delegation models involving EU AIFMs or operating EU fund structures) will need to align with key expectations
- EU AIFMs may impose stricter due diligence requirements on delegates

NRS View:

In practice, AIFMD II is likely to set a market standard, not just a regulatory baseline. UK-based firms with EU exposure should assess the impact on delegation arrangements, distribution strategies and operational models.

The Real Challenge: Implementation

AIFMD II is not simply a legal update. It is an **operational change programme**.

It affects a variety of areas including:

- Legal frameworks
- Risk models
- Governance structures
- Data and reporting systems
- Investor disclosures

NRS View:

Successful firms will typically:

- 1) *Establish a centralised implementation programme*
- 2) *Assign clear ownership across functions*
- 3) *Maintain board-level oversight and challenge*
- 4) *Link regulatory requirements to operational processes*

Firms may be unsuccessful because they:

- *Treated AIFMD II as a compliance exercise*
 - *Underestimated cross-functional dependencies*
 - *Failed to establish central programme ownership*
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In Summary

AIFMD II reinforces a broader regulatory trend of a shift to evidence-based regulation.

Compliance is no longer about having the right policies—it is about demonstrating that those policies work in practice.

The directive represents:

- A move toward supervisory consistency across the EU
- A stronger emphasis on governance and accountability
- Increased reliance on data and evidence

For firms, the key question is no longer:

- *Do we comply?*

But:

- *Can we prove that we operate effectively, consistently, and under control?*

Like all regulatory change the key challenge is going to be execution.

NRS perspective

AIFMD II may be described as an evolution—but its implications are structural.

Firms that treat it as a strategic opportunity to strengthen governance and operating models will be far better positioned than those that approach it as a narrow regulatory update.

In our experience, successful implementation depends on:

- Treating AIFMD II as a firm-wide transformation programme
- Aligning:
 - Legal interpretation
 - Operational delivery
 - Governance oversight

Firms that simplify governance, clearly define ownership of regulatory risks, and ensure that frameworks reflect actual business activity will be best positioned to meet supervisory expectations.

Where required firms should implement a structured implementation programme covering:

Gap Analysis*

- Benchmark current frameworks against AIFMD II
- Identify priority remediation areas

Delegation Review

- Assess substance and oversight
- Strengthen governance and documentation

Loan Origination Framework

- Align lending policies and controls
- Review portfolio construction limits

Liquidity Framework

- Validate LMT selection and usability
- Enhance governance and escalation

Data and Reporting

- Assess data architecture
- Improve reporting controls

Programme Governance

- Establish central implementation ownership
- Ensure regular board reporting and oversight

** A template is available from NRS*

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