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# Multi-Compartment SCS/SCSp AIFs



**At a glance**

- **Scope:** Bill of Law No. 8814 would amend the Law of 12 July 2013 on alternative investment fund managers (the "AIFM Law") to permit eligible Luxembourg SCS and SCSp AIFs outside the SICAR, SIF, RAIF and Part II UCI product regimes to adopt a statutory multi-compartment structure, provided that they are managed by an authorised EU AIFM.
- **Status:** Bill of Law No. 8814 is pending adoption.

## Filling a gap

Currently, access to statutory ring-fenced compartments in Luxembourg requires the use of a dedicated product framework (RAIF, SICAR, SIF or Part II UCI). Although effective, these regimes entail statutory constraints, including minimum capital requirements and mandatory risk-diversification rules. Where the sole purpose of using a product-law regime is to benefit from a multi-compartment structure, those constraints may be burdensome.

SCS or SCSp AIFs outside those product regimes which pursue multiple strategies frequently use contractual mechanisms, such as tracking partnership interests. However, purely contractual segregation may leave the fund exposed to cross-liability and insolvency risks. The Draft Bill seeks to fill this gap by extending access to statutory multi-compartment structures to eligible vehicles. It would not replace the existing RAIF, SIF, SICAR or Part II UCI regimes; rather, it would add a compartmentalisation option for eligible SCS and SCSp AIFs structured outside those product-law regimes.

## Key legal mechanics

### Scope & Eligibility

The proposed Article 28bis applies exclusively to SCS and SCSp established in Luxembourg and managed by an authorised EU AIFM, either established in Luxembourg or in another EU Member State under Directive 2011/61/EU (the "AIFMD"). Unregulated partnerships managed by sub-threshold or registered AIFMs fall outside this scope, unless they opt into the full AIFMD regime.

The proposed regime would not apply to other corporate or contractual forms and would not amend the existing product-law regimes for SICARs, SIFs, Part II UCIs and RAIFs.



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■ **Statutory ring-fencing**

The core of the proposed regime is statutory ring-fencing between compartments. Investor and creditor recourse is limited to the assets of the relevant compartment, which forms a segregated pool of assets and liabilities without separate legal personality.

The liquidation of one compartment does not affect the others; only the liquidation of the last compartment triggers the liquidation of the AIF.

For practitioners, this closes a gap: multi-strategy SCS/SCSp AIFs outside the product-law regimes have so far relied on tracking interests, which are contractual only and may not be enforceable against third parties. The Draft Bill would replace this with statutory segregation, limiting cross-liability between strategies and investor pools.

■ **Cross-compartment investments**

Under paragraph (5) of the proposed Article 28bis, a compartment may subscribe for, acquire or hold partnership interests issued by another compartment of the same AIF. However, two limitations would apply:

- Circular cross-compartment holdings would be prohibited, meaning that the target compartment may not itself invest in the investing compartment.
- Where a compartment holds partnership interests in another compartment, the holding compartment may not exercise the voting rights attached to those partnership interests for as long as it holds them.

■ **Constitutional and disclosure rules**

The adoption of a multi-compartment structure would require the relevant arrangements and conditions to be expressly set out in the limited partnership agreement. The investment policy of each compartment would also need to be described in accordance with Article 21 of the AIFM Law.

■ **Financial reporting**

A compartment-specific annual report could be prepared, provided that it also includes the required aggregated data for all compartments, in addition to information relating to the relevant compartment.

■ **No tax changes**

The Draft Bill would amend the corporate and regulatory framework under the AIFM Law but would not itself amend the Luxembourg tax framework. The tax treatment of a contemplated multi-compartment SCS/SCSp structure should therefore continue to be assessed under the generally applicable tax rules and in light of the relevant facts.

## Strategic and market impact

The proposed reform represents a targeted enhancement of Luxembourg's fund toolbox, combining flexible partnership models with a statutory multi-compartment framework. The proposed regime could offer substantial strategic advantages:

- Competitiveness with Anglo-Saxon vehicles: UK and US sponsors often prefer a single master structure. Article 28bis could offer international sponsors a flexible European vehicle based on an equivalent limited partnership model.
- Cost efficiency and time savings: Subject to the limited partnership agreement and the relevant governance, regulatory and other applicable requirements, sponsors could generally add a new strategy by amending the limited partnership agreement rather than incorporating additional legal entities, thereby potentially avoiding additional RCS registrations and corporate procedures.

## Your contact persons



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