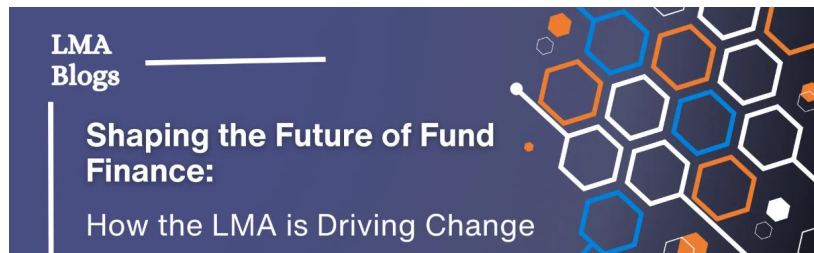


Fund Finance Friday



Shaping the Future of Fund Finance: How the LMA is Driving Change

December 20, 2024



The foundations for the Loan Market Association's ("LMA") fund finance work plans are now in place. Over the last months, LMA has thoroughly studied the market, listened to the voices of members and key stakeholders, and analysed market developments to build a solid foundation.

Now, we are here! LMA is committed to amplifying the voice of the community. Together, they aim to enhance market efficiency, liquidity and transparency, driving meaningful progress in the market.

Why now?

With fund finance being the biggest asset class you have never heard of, we are often asked why the LMA has now chosen to focus on this area. As a member-driven organisation, we are built by our members, for our members. This once niche market has grown into its own – subscription finance volumes alone grew 90% between 2017 and 2022 (source: [Fitch](#)). With this growth comes fresh opportunities, but also has increased attention and scrutiny, often leading to misconceptions.

As the trusted voice of the loan market, coupled with the breadth of our membership, the market sees the LMA as uniquely positioned to address any challenges and provide vital support as this market continues to expand.

From ideas to actions: What working parties have been established?

We began by listening. The LMA worked with an initial think tank comprised of lenders, GPs, LPs, investors and advisers, which identified key areas where the LMA's involvement could make a difference. The long list of asks was distilled into focused actions designed to deliver the most value, with the most impact on efficiency, liquidity and transparency across the EMEA loan markets.

In November, we established and met with dedicated working parties focused on the following areas:

1. Documentation and guidance
2. Education and communications
3. Regulation and industry consultations

With task forces in place, we have hit the ground running with a clear plan of action.

Increasing efficiency: guiding the market forward

The LMA has a key role to play in increasing efficiency by creating frameworks, guidance and best practices in the market. This includes work on:

- **Negotiated definitions:** Our first focus is on a rider and guidance for “exclusion events” and related terms.
- **LPA due diligence checklists:** Starting with sublines before expanding to NAV financing, these tools will streamline processes and set clear expectations.

By addressing these technical aspects, we are laying the groundwork for a more efficient market.

Education: turning mirrors into windows

It was John F. Kennedy who said that the goal of education is the advancement of knowledge and the dissemination of truth. With fund finance being thrust into the public eye, the intense scrutiny and media focus on narrow segments of the market and a perpetuation of misconceptions needs to be tackled. This asset class has a long, positive history of innovation and low default rates. The LMA is working with the education and communications working party to draw out the facts to inform and educate – to turn mirrors into windows.

First is creating a glossary of terms. To start, we have to explain what the market is and what it is not and establish a taxonomy of language. Level setting and mitigating instances of talking at cross purposes will increase efficiency in the market. The second step is to explain the evolution and history of fund finance, including how financing is used throughout the fund lifecycle and the performance of the asset class. Keep an eye out for an upcoming blog on this.

Further communications are planned around NAV and other topics – giving the market a trusted voice. We also look forward to seeing many of you at the DealCatalyst event in partnership with the LMA on **The Future of Fund Finance – Europe** on 28 January in London.

Navigating regulation together

With regulators naturally increasingly focused on private markets, collaboration and education are essential to navigating this landscape. Our regulation and industry consultations working party will give the market a collective voice.

We are working together to tackle the impact on liquidity of upcoming and existing regulations. The market has shown innovation in developing new structures, but support is needed to work through the challenges and foster a proactive dialogue with the regulatory community. This will help to ensure capital can be deployed to where it is needed.

What about other associations: partnering across the market

The LMA is not an island and is actively collaborating with the market. We are in discussions with key associations, including the FFA and ILPA, as well as our sister organisations (the APLMA and LSTA) to ensure alignment. The industry has spoken and sees the LMA as having a key role to play in line with its mission – we are proud to take on that role and work with the market and other associations. We appreciate the collaboration thus far which we look forward to expanding in 2025.

Looking ahead

As we move forward, we will meet with a senior executive committee established to oversee our strategy in fund finance and ensure we are delivering real value to the market. As mentioned in previous blogs, the LMA is also working with members to shine a light on the size, subsets and stakeholders in the market – stay tuned for updates. We would like to take this opportunity to thank all market participants who have engaged with the LMA on these workstreams. We look forward to working with you to deliver positive impact for the market.

If you are interested in learning more about the working parties, please contact Kam Hessling at kam.hessling@lma.eu.com.

Read the blog [here](#).