Dillon Eustace

European Commission adopts rules governing use of liquidity management tools

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Background

As part of significant reforms to the UCITS and AIFMD frameworks, **Directive (EU) 2024/927** (**Omnibus Directive**) amends both the UCITS Directive[1] and AIFMD[2] to introduce the mandatory use of at least **two** liquidity management tools (**LMTs**) by all UCITS funds and open-ended AIFs[3].

These LMTs must be selected from a list set down in the Omnibus Directive which comprise of (i) redemption gates, (ii) extension of notice periods, (iii) in-kind redemptions, (iv) redemption fees, (v) swing pricing, (vi) dual pricing, (vii) side pockets and (viii) anti-dilution levies. In addition, fund managers must have the ability to suspend subscriptions/redemptions and/or to apply side pockets in certain circumstances.

What has been adopted by the European Commission and why?

On 17 November 2025, the European Commission adopted its proposed regulatory technical standards (**RTS**) relating to the use of LMTs by UCITS funds and open-ended AIFs. These comprise of:

- **Draft regulatory technical standards** specifying the characteristics of LMTs under the UCITS Directive; and
- **Draft regulatory technical standards** specifying the characteristics of LMT under AIFMD.

While the Omnibus Directive itself provides a definition of each LMT, the RTS provide further clarity on the characteristics that each of the LMTs must satisfy with the objective being to ensure a harmonised approach to the use of LMT throughout the EU.

The RTS adopted by the European Commission this week largely align with the draft RTS proposed by ESMA in April 2025[4].

However, the European Commission has confirmed that in the case of open-ended AIFs, the activation threshold for redemption gates can be applied at fund level, investor level or a combination of both. This differs from ESMA's proposals under which ESMA had proposed that redemption gates could only be applied at fund level. The ability to apply redemption gates at investor level has not been afforded to UCITS funds.

Under its proposals, ESMA had proposed that estimated implicit transaction costs should be included in the application of all redemption fees, swing pricing mechanisms, dual pricing mechanisms or anti-dilution levies. Helpfully, the European Commission has clarified in the RTS that such implicit costs (described as costs indirectly borne by the relevant fund on the acquisition or disposal that primarily arise from the bid-ask spread and market impact) must only be included where this is appropriate to the investment strategy of the relevant AIF/UCITS.

1 Directive 2009/65/EC
2 Directive 2011/61/EU
3 UCITS and AIFs established as money market funds are required to only select and use one LMT from the list set down in the Omnibus Directive.
4 For further details on ESMA's proposals published in April 2025, please refer to our **briefing** on the topic.

The RTS are now subject to a scrutiny period of 3 months by the European Parliament and the Council of the EU before they are formally published in the Official Journal of the EU.

What is the timeframe for complying with the RTS?

UCITS and AIFS constituted on or after 16 April 2026 must comply with the RTS immediately. UCITS and AIFs constituted before 16 April 2026 will not be required to comply with the RTS until 16 April 2027, in effect providing a transitional period of one year for existing UCITS and AIFs to comply with the RTS.

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