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ESMA publishes proposed rules governing use of liquidity management tools

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What has been published and why?

On 15 April 2025, ESMA published its proposed framework relating to the use of liquidity management tools (**LMTs**) by UCITS funds and open-ended AIFs. This comprises of:

- A final report containing its **draft regulatory technical standards** on the characteristics of LMTs (**Draft RTS**); and
- A final report containing its **draft guidelines** on the selection and calibration of LMTs (**Draft Guidelines**).

With a year to go before the application of the revisions to the UCITS and AIFMD frameworks made by the **Directive (EU) 2024/927** (**Omnibus Directive**), one of the key reforms that fund managers are monitoring is the introduction of the mandatory use of at least **two** LMTs by all UCITS funds and open-ended AIFs[1].

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 to apply side pockets in certain circumstances.

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

The Draft Guidelines set out:

- the factors which should be borne in mind by fund managers when selecting the two mandatory LMTs for each fund under management;
- how each of the LMTs should be calibrated depending on the fund in question; and
- the circumstances in which it is appropriate to activate/deactivate each of the individual LMTs.

1 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.

What happens next?

The European Commission now has 3 months to consider the Draft RTS, with the ability to extend this review period by a further month.

To the extent that the European Commission amends the Draft RTS, ESMA will adjust the Draft Guidelines to ensure consistency with the revised RTS.

ESMA has proposed that in-scope fund managers with funds in existence before the date of application of the finalised guidelines be given 12 months from the application date of the RTS to comply with its finalised guidelines in respect of those funds.

What should fund managers do now?

While the Draft RTS and related Draft Guidelines are not final (and thus may change), we would suggest that in-scope fund managers should plan to assess their existing LMT arrangements against the rules proposed by ESMA to identify any changes that may need to be made in order to comply with the new regulatory framework if it is implemented in the manner put forward by ESMA.

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