

Report

on amended guidelines on LMTs of UCITS and open-ended AIFs

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1. Executive Summary

Reasons for publication

The revised AIFMD and UCITS Directive¹ provide that ESMA shall develop guidelines on the selection and calibration of liquidity management tools (LMTs) by UCITS and AIFMs of open-ended AIFs for liquidity risk management and for mitigating financial stability risks.

The revised AIFMD and UCITS Directive also provide that ESMA shall develop draft regulatory technical standards (RTS) to determine the characteristics of LMTs available to AIFMs managing open-ended AIFs and to UCITS.

On 15 April 2025 ESMA published:

- The Final Report on the RTSs on LMTs under the AIFMD and UCITS Directive²;
- The Final Report on the Guidelines on LMTs of UCITS and open-ended AIFs³.

Following their publication, the draft RTSs were submitted to the European Commission (EC) for adoption. The EC formally adopted the draft RTS on 17 November 2025, making a number of amendments to the original text.⁴ Some of these amendments have an impact on the Guidelines.

To ensure complete consistency between the Guidelines and the RTSs as adopted by the EC, ESMA has made some targeted amendments to the Guidelines. These targeted amendments relate to the following areas:

- Redemption gates; and
- Transaction costs for anti-dilution LMTs.

This report includes the revised Guidelines which integrate the above-mentioned targeted amendments. As the proposed amendments align with several points raised during the consultation on the Guidelines on LMTs, ESMA considers that a further consultation on these changes is unnecessary.

ESMA believes it is important to publish the revised Guidelines prior to the entry into force of the RTS to ensure that stakeholders are timely provided with the relevant guidance. ESMA will monitor whether there is any need to further amend the Guidelines before the entry into force of the RTS.

Contents

Section 2 describes the main amendments following the adoption of the RTS by the EC.

Annex I contains the full text of the draft guidelines, as amended following the adoption of the RTS by the EC.

Annex II includes excerpts of the final Guidelines highlighting all amendments in track changes, enabling stakeholders to easily identify and review the relevant changes.

Next Steps

The Guidelines in Annex I of this report will be translated into the official EU languages and published on the ESMA website. The publication of the translations will trigger a two-month period during which NCAs must notify ESMA whether they comply or intend to comply with the guidelines.

The Guidelines will apply upon the application date of the RTS. Managers of funds existing before the date of application of these Guidelines should apply these Guidelines in respect of those funds after twelve months from the application date of the RTS.

¹ [Directive \(EU\) 2024/927 of the European Parliament and of the Council of 13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds \(europa.eu\)](#)

² [Microsoft Word - ESMA34-1985693317-1259 Final report RTS LMTs](#)

³ [ESMA34-1985693317-1160 Final Report on the Guidelines on LMTs of UCITS and open-ended AIFs.pdf](#)

⁴ See [ucits-directive-rts-2025-7642_en.pdf](#) and [aifmd-rts-2025-7643_en.pdf](#)

2. Amendments to the guidelines following the adoption of the RTS by the EC

To align the Guidelines with the RTS as adopted by the European Commission, the following amendments have been introduced:

	Amendments made by the EC to the draft RTS on redemption gates and transaction costs	Corresponding amendments made by ESMA to the Guidelines
AIFMD	Inclusion of 'investor-level' redemption gates (see Recital 3 and Article 2 of the AIFMD RTS ⁵)	NEW paragraph 27.a: <i>"Fund managers of AIFs with no retail investors and with a limited number of professional investors should consider investor-level redemption gates, alone or in combination with fund-level gates, to mitigate first mover advantage."</i> ⁶
AIFMD and UCITS	Calculation of implicit costs for anti-dilution LMTs only where appropriate to the investment strategy of the fund and on a best effort basis (see Article 4 to 7 of the UCITS and AIFMD RTS) ⁷	Amended paragraph 37: <i>"Fund managers should activate ADTs both under normal and stressed market conditions to impose the estimated costs of liquidity on subscribing and/or redeeming investors. The estimated cost of liquidity should:</i> 43. include explicit transaction costs of subscriptions, repurchases or redemptions;

⁵ "To mitigate the first mover advantage that may give rise to investor protection concerns and to account for open-ended AIFs with a limited amount of professional investors, the activation threshold of an investor-level gate should consider the individual redemption orders of each investor in the AIF and should be expressed either as a percentage of an investor's holdings in the AIF or as a percentage of the net asset value of the AIF and compared to that investor's redemption order".

⁶ As indicated in Recital 3 of the AIFMD RTS, this is aimed at mitigating the first mover advantage that may give rise to investor protection concerns.

⁷ Those Articles refer to Anti-Dilution Tools (ADTs) both under UCITS and AIFMD and they establish that ADTs (i.e.: redemption fees, swing pricing, dual pricing and anti-dilution levy), "shall take into account the estimated explicit transaction costs" and "where appropriate to the investment strategy of the [UCITS/AIF]", they "shall also take into account the implicit transaction costs, including any significant market impact (...). Those implicit transaction costs shall be estimated on a best effort basis". The same principles are clarified under Recital 8 of the UCITS RTS and Recital 9 of the AIFMD RTS.

		<p>44. consider implicit transaction costs, including any significant market impact of asset purchases or sales, only where appropriate to the investment strategy and estimated on a best effort basis”</p> <p>Paragraphs 38, 44 and 52 of the Guidelines were also adjusted accordingly.</p>
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Annexes

Annex I: Amended guidelines on Liquidity Management Tools (LMTs) of UCITS and open-ended AIFs

1. Scope

Who?

1. These guidelines apply to competent authorities and fund managers

What?

2. These guidelines apply in relation to Article 18a(2) of the UCITS Directive and Article 16(2b) and (2c) of the AIFMD.

When?

3. These guidelines apply on the date of application of the RTS referred to in Article 18a(3) of the UCITS Directive and Article 16(2g) of the AIFMD.
4. By way of derogation from the first subparagraph, in respect of a fund existing before the date of application referred to in that subparagraph, these guidelines apply twelve months from that date.

2. Legislative references, abbreviations and definitions

Legislative references

UCITSD	Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) ⁸
AIFMD	Directive 2011/65/EU on Alternative Investment Fund managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 ⁹
ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC ¹⁰

Abbreviations

UCITS	Undertaking in Collective Investment in Transferable Securities
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
LMT	Liquidity Management Tool
NAV	Net Asset Value
ADT	Anti-Dilution Tool
ADL	Anti-Dilution Levy

Definitions

⁸ OJ L 302, 17.11.2009, p. 32.

⁹ OJ L 174, 1.7.2011, p.1.

¹⁰ OJ L 331, 15.12.2010, p. 84.

fund manager	<ul style="list-style-type: none"> a) a management company as defined in Article 2(1)(b) of the UCITS Directive; b) an investment company that has not designated a management company authorised pursuant to the UCITS Directive referred to in Article 30, first subparagraph, of the UCITS Directive; c) an AIFM as defined in Article 4(1)(b) of the AIFMD that manages an open-ended AIF
ADTs	redemption fees, swing pricing, dual pricing, ADLs
selected LMTs	the LMTs selected by the fund manager among those included in Annex IIA, points 2 to 8, of the UCITSD and in Annex V, points 2 to 8, of the AIFMD, i.e.: redemption gate, extension of notice periods, redemption fee, swing pricing, dual pricing, anti-dilution levy, redemption in kind
exceptional circumstances	unforeseen events, operational environments or regulatory environments that materially impact the fund's ability to carry out normal business functions which would temporarily prevent the fund manager from meeting the funding obligations arising from the liabilities side of the balance sheet

3. Purpose

5. These guidelines are published under mandates set out in the amending Directive of the AIFMD and UCITS Directive (Directive (EU) 2024/927 of the European Parliament and of the Council¹¹). More specifically, the mandates in Article 18a, paragraph 4, of the UCITS Directive and Article 16, paragraph 2h, of the AIFMD provide that ESMA shall develop guidelines on the selection and calibration of liquidity management tools by UCITS and AIFMs for liquidity risk management and for mitigating financial stability risks.

¹¹ Directive (EU) 2024/927 of the European Parliament and of the Council of 13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services and loan origination by alternative investment funds (OJ L, 2024/927, 26.3.2024).

6. These guidelines are also based on Article 16(1) of the ESMA Regulation.
7. Whilst the primary responsibility for LMTs remains with the UCITS and AIFMs, the purpose of these guidelines is to establish consistent, efficient and effective supervisory practices and to ensure the common, uniform and consistent application of Union law, in particular of Article 18a(2) of the UCITS Directive and Article 16(2b) and (2c) of the AIFMD in relation to the selection, activation and calibration of LMTs.

4. Compliance and reporting obligations

Status of the guidelines

8. In accordance with Article 16(3) of the ESMA Regulation, competent authorities and financial market participants must make every effort to comply with these guidelines.
9. Competent authorities to which these guidelines apply should comply by incorporating them into their national legal and/or supervisory frameworks as appropriate, including where particular guidelines are directed primarily at financial market participants. In this case, competent authorities should ensure through their supervision that financial market participants comply with the guidelines.

Reporting requirements

10. Competent authorities to which these guidelines apply must notify ESMA whether they comply or intend to comply with the guidelines, with reasons for non-compliance, within two months of the date of publication by ESMA. In the absence of a response by this deadline, competent authorities will be considered as non-compliant. A template for notifications is available from the ESMA website.
11. Financial market participants are not required to report whether they comply with these guidelines.

5. Guidelines on LMTs of UCITS and open-ended AIFs

5.1 Guidelines on general principles

12. The primary responsibility for liquidity risk management, as well as for the selection, calibration, activation and deactivation of LMTs, remains with the fund manager. In the selection of the appropriate LMTs, fund managers should give due consideration that the selected LMTs will allow to effectively manage the fund's liquidity risk under both normal and stressed market conditions and that the selection is as comprehensive as possible to address different circumstances.
13. In accordance with Article 18a(2) of the UCITSD and Article 16(2b) of the AIFMD, when selecting LMTs from Annex IIA of the UCITS Directive and Annex V of the AIFMD, fund managers should assess the suitability of those tools in light of all relevant factors, including at least the following:
- a) the fund's legal structure and any specific features associated with the manner in which it is structured (e.g. ETFs, master-feeder structure);
 - b) the fund's investment strategy and investment policy;
 - c) the dealing terms of the fund including, *inter alia*, the minimum duration of the notice period, lock up period, settlement period, redemption policy and dealing frequency;
 - d) the liquidity profile of the fund and its underlying assets, including any anticipated liquidity demands, taking into account investors' redemptions and other potential sources of liquidity risk from the liability side of the fund's balance sheet (e.g.: margin calls) under normal and stressed market conditions and the impact on the liquidity profile of the fund of the activation of the LMTs;
 - e) the results of liquidity stress testing;
 - f) the characteristics of the fund's investor base;
 - g) the fund's distribution policy;
 - h) any other relevant operational barriers and complexities that may impact on the feasibility of implementing certain LMTs.
14. While the UCITSD and AIFMD require the selection of at least two appropriate LMTs from the lists contained in Annex IIA of the UCITS Directive and Annex V of the

AIFMD, managers may choose to select more than two LMTs as well as additional liquidity measures, in order to ensure the fund's overall resilience and ability to manage its liquidity during both normal and stressed market conditions. In selecting additional LMTs or liquidity measures, fund managers should assess their suitability in light of all relevant factors, including at least the factors referred to in the previous paragraph.

15. In the selection of the two minimum mandatory LMTs, fund managers should consider, where appropriate, the merit of selecting at least one quantitative-based LMT (i.e.: redemption gates, extension of notice period) and at least one ADT (i.e.: redemption fees, swing pricing, dual pricing, ADL), taking into consideration the investment strategy, redemption policy and liquidity profile of the fund and the market conditions under which the LMT could be activated. In this context, fund managers may consider whether to select one LMT to use under normal market conditions and one LMT to be used under stressed market conditions.
16. When considering the activation of LMT(s), fund managers should assess whether to activate LMTs individually or in combination with additional LMTs or other liquidity measures.
17. Fund managers should be able to demonstrate, at the request of the competent authority, that the activation and calibration(s) of the selected LMTs are in the best interest of all investors and are appropriate and effective in light of market conditions and the relevant characteristics of the fund (e.g.: the liquidity profile, the type of underlying assets, the investor base).
18. Fund managers should ensure that the level of subscription and redemption orders received is treated in a manner which avoids that some investors benefit from information on the probability that LMTs may be activated (e.g.: activation thresholds may be reached in case of redemption gates).

5.2 Guidelines on quantitative-based LMTs

5.2.1 Guidelines on suspension of subscriptions, repurchases and redemptions ("suspensions")

19. Fund managers should consider the activation of suspensions only in exceptional circumstances and where justified having regard to the interests of its investors. A non-exhaustive list of exceptional circumstances under which a fund manager may consider activating suspensions includes: asset valuation difficulties; severe liquidity issues (e.g.: due to margin calls, significant withdrawal) where executing the sale of underlying assets could cause liquidity issues for the fund (e.g.: large discounts in

asset sales, large dilution of remaining investors); critical cyber incident that impacts on the fund, the fund manager and/or fund's services provider capacity to operate; unforeseen market closures, trading restrictions, closure of trading venues; severe financial and/or political crisis; identification of significant fraud; natural disaster.

20. The suspensions may include the suspension of the NAV calculation, particularly in case of uncertain valuation and where it is not possible to compute the NAV of the fund(s). In other cases, and whenever possible, the fund manager should continue to value the assets in the fund and publish a NAV to ensure proper information is provided to investors, including the fact that the fund is closed for subscriptions, repurchases and redemptions.
21. Whilst suspensions, in some cases, may be activated while the fund manager is deciding whether to liquidate the fund, fund managers should ensure that suspensions are activated only on a temporary basis (i.e.: with the view not to permanently suspend the fund, but to re-open it, or liquidate it or activate side pockets, if necessary, at a certain point in time).
22. Fund managers should consider relevant calibrations for suspensions to include:
 - a) the criteria for assessing and monitoring the conditions that prompted their activation;
 - b) the criteria for reviewing and potentially revising the decision to suspend and the change in circumstances that would warrant this.

5.2.2 Guidelines on redemption gates

23. Fund managers should consider the selection of redemption gates for all funds, as all assets could potentially suffer from liquidity issues during stressed market conditions and the activation of this LMT may be useful to avoid the activation of suspensions.
24. The selection of redemption gates should be considered especially by:
 - a) fund managers of funds with a concentrated investor base, where a redemption of a significant size could cause liquidity issues to the fund and affect investors, particularly the remaining ones;
 - b) fund managers of funds whose assets might be less liquid, inherently illiquid, or might become illiquid during stressed market conditions and/or assets that might take longer time to sell.

25. Fund managers should consider the activation of redemption gates in cases of redemption requests when the threshold is exceeded. The activation of redemption gates may be less suited where a fund has valuation issues, in which case the manager may consider the use of other LMTs (e.g.: suspensions together with the suspension of the NAV).
26. Fund managers should calibrate the activation threshold in order to ensure that it operates effectively, so that a redemption gate can be activated whenever the manager needs to limit redemptions in the best interest of investors. In calibrating such threshold, managers should give due consideration to:
- a) the NAV calculation frequency;
 - b) the investment objective of the fund;
 - c) the liquidity of the underlying assets;
 - d) the current market conditions;
 - e) the expected cash flows.
27. Fund managers should not restrict the use of redemption gates in terms of the maximum period over which they can be used (maximum duration of redemption gates) or the maximum number of times that redemption gates can be activated (maximum use of redemption gates), as long as the activation of the gate remains temporary in nature. These matters should be determined by the fund manager on a case-by-case basis.
- 27.a Fund managers of AIFs with no retail investors and with a limited number of professional investors should consider investor-level redemption gates, alone or in combination with fund-level gates, to mitigate first mover advantage

5.2.3 Guidelines on the extension of notice periods

28. Fund managers should consider the selection of extension of notice periods for all funds but, as this LMT provides additional time to liquidate the underlying assets, particular consideration should be given to this LMT in respect of:
- a) funds whose liquidity is particularly susceptible to deterioration in times of market stress;

- b) AIFs invested in less liquid assets and, particularly, for real estate and private equity funds, which should already have an appropriate redemption frequency in line with the level of liquidity of their assets under normal market conditions.

29. Fund managers should consider the activation of extension of notice periods both under normal and stressed market conditions, taking into account that it may be particularly useful in certain circumstances, for instance, in case of redemption pressures.

30. Fund managers should carefully assess whether the activation of the extension of notice periods is appropriate for UCITS under normal market conditions, taking into consideration the liquidity of their assets and the best interest of investors.

31. In order to avoid prompting an increase of redemptions requests, fund managers should carefully calibrate the length of the extension of notice periods, considering the time necessary for the orderly liquidation of the underlying instruments in the best interests of the investors.

5.2.4 Guidelines on Redemptions in Kind (RiK)

32. In the selection of RiK, fund managers should consider:

- a) the structure of the fund;
- b) the investor concentration;
- c) the asset types; and
- d) the applicable restrictions that apply to the use of RiK to professional investors only, in accordance with Article 18a(2) of the UCITS Directive and Article 16(2b) of the AIFMD.

5.3 Guidelines on Anti-Dilution Tools (ADTs)

33. Fund managers should consider the selection of ADTs for all types of funds to mitigate material investor dilution and potential first mover advantage.

34. Fund managers should carefully assess the different levels for the activation of ADTs at fund level and should set in advance and regularly review appropriate and prudent activation thresholds so as to avoid any material dilution impact on investors, in both normal and stressed market conditions and depending on the investment strategy, assets under management, size and portfolio characteristics, estimated cost of liquidity, investor profile, liquidity profile of each fund and historical fund flows.

35. Fund managers should consider that the activation of ADTs may be more challenging in certain circumstances, for example, when there is limited market liquidity and/or in cases of valuation uncertainty. In those cases, fund managers may consider the use of other LMTs in addition to ADTs (e.g.: quantitative-based LMTs).
36. Fund managers should ensure that the activation of ADTs does not affect the fund manager's duty to value all assets fairly and appropriately at all times.
37. Fund managers should activate ADTs both under normal and stressed market conditions to impose the estimated costs of liquidity on subscribing and/or redeeming investors. The estimated cost of liquidity should:
- a) include explicit transaction costs of subscriptions, repurchases or redemptions;
 - b) consider implicit transaction costs, including any significant market impact of asset purchases or sales, only where appropriate to the investment strategy and estimated on a best effort basis. A reasonable input for the estimation of the market impact could be to analyse previous transactions under similar market conditions to compare the difference between the price when the order was placed and the final executed price;
 - c) be based, as a starting point, on costs associated with transacting a pro-rata slice of all assets in the portfolio (i.e. "pro-rata approach"), unless this does not represent a fair estimate of the true liquidity cost. Where the pro-rata approach does not represent a fair estimate of the liquidity cost, the estimation can be adjusted to reflect more accurately the expected cost of liquidity when transacting in selected single holdings of the portfolio. Managers may consider using the pro-rata cost in stressed times, when it is most relevant for mitigating the potential dilution impact on the remaining investors.
38. In order to ensure that the calibration of ADTs effectively reflects the estimated costs of liquidity, as per the previous paragraph, the fund manager should regularly review the calibration and adjust it when needed.
39. Fund managers should be able to demonstrate, at the request of the relevant NCA, that the calibration of ADTs is fair and reasonable for both normal and stressed market conditions, taking into account the best interests of investors.

5.3.1 Guidelines on redemption fees

40. Fund managers may consider the selection of redemption fees for all types of funds, but redemption fees may be most useful in respect of the following funds:

- a) funds that invest in assets which have fixed, transparent and/or foreseeable transaction costs, such as real estate agency fees or notary fees, and/or that have low-variation transaction costs (e.g.: fixed taxes and levies on real estate transactions);
 - b) funds that are invested in less liquid assets where other ADTs, such as swing pricing, might be challenging or impossible to implement due to infrequent and limited pricing sources.
41. When calibrating the predetermined range of redemption fees, fund managers should apply a methodology that, if static, allows for review and adjustment, to reflect the higher cost of liquidity or stressed market conditions.

5.3.2 Guidelines on swing pricing

42. Fund managers should consider the selection of swing pricing for funds whose underlying assets are actively traded and information on trading costs (bid/ask) is available and frequently updated, particularly where the funds invest mainly in assets with market contingent liquidity costs. Fund managers should consider that swing pricing may be less appropriate when trading costs are not readily available
43. Fund managers should base a decision to activate a specific swing pricing model (i.e.: full, partial with a single or tiered swing factor), and the calibration of the swing factor, on market conditions, based on a methodology determined by the fund manager.
44. When calibrating swing pricing, fund managers should ensure that the estimated cost of liquidity, in light of the market conditions and in line with the principles in paragraph 37, is incorporated in the swing factor, including, where appropriate, any significant market impact of the trades.
45. Fund managers may set a maximum swing factor. In case the swing factor adjustment goes beyond the maximum swing factor, the fund manager should be able to justify, if required by the competent authority, on an ex-post basis the swing factor applied.
46. Fund managers should ensure that a decision to recalibrate the maximum swing factor is justified and made in the best interest of the investors.

5.3.3 Guidelines on dual pricing

47. Fund managers should consider the selection of dual pricing as potentially appropriate for funds that invest mainly in assets whose liquidity costs are reflected primarily by a bid-ask spread.

48. While dual pricing may be more suitable for funds that invest in assets whose liquidity costs are mainly comprised of the bid-ask spread, fund managers should account separately by additional adjustment to the NAV any significant market impact or explicit transaction costs.

5.3.4 Guidelines on Anti-Dilution Levy (ADL)

49. Fund managers should consider ADL to be especially appropriate for funds:

- a) with a high investor concentration (i.e.: a small number of investors), to address the risk that one or more investors could fully redeem their shares at a short notice;
- b) with significant levels of subscription and/or redemption activity that could negatively impact the fund's existing investors (e.g.: smaller funds in terms of NAV could be more impacted by the cost of liquidity caused by large redemptions);
- c) that invest in less liquid assets (e.g.: high yield bonds, small cap equities);
- d) where information on trading costs (bid/ask) is generally available (e.g.: funds that invest in assets with market contingent liquidity costs).

50. Fund managers should note that ADL can be activated on an ongoing basis or dynamically based on pre-defined triggers and thresholds.

51. While the ADL may be implemented consistently during normal market conditions, fund managers should review its calibration in relation to changing market conditions to ensure its effectiveness in preserving the fund's liquidity.

52. Fund managers should calibrate ADL based on the same factors used to calibrate swing factors, i.e.: the calibration of ADL should include all estimated explicit and estimated implicit transaction costs, where appropriate and in line with the principles in paragraph 37, and it should be reviewed and, where needed, adjusted to ensure that the levy can evolve on a regular basis in light of the market conditions.

6 Guidelines on side pockets

53. Fund managers should consider the activation of side pockets only in exceptional circumstances and where justified having regard to the interests of its investors. A non-exhaustive list of exceptional circumstances under which a fund manager may consider activating side pockets includes:

- a) significant valuation uncertainty and/or illiquidity of a specific portion of the portfolio of the fund for which there is no active market and/or for which trading is prohibited (e.g. due to sanctions) and/or for which fair valuation is temporarily unavailable with the view of segregating it from the rest of the fund (to enable this part to remain open for investors);
- b) fraud, financial crisis or war affecting a particular sector or region.

54. In the calibration of side pockets, managers should consider:

- a) determining the circumstances for activating a side-pocket and defining when such conditions no longer exist;
- b) setting criteria for assessing and monitoring the conditions that prompted the use of the side-pocket;
- c) consider the merit of placing some cash to manage the potential liabilities of the side pockets;
- d) the criteria for reviewing and potentially revising the side-pocket decision and the changing circumstances that would warrant this.

Annex II: Excerpts of the amended guidelines on LMTs of UCITS and open-ended AIFs (amendments shown in track changes)¹²

5.2.2 Guidelines on redemption gates

23. Fund managers should consider the selection of redemption gates for all funds, as all assets could potentially suffer from liquidity issues during stressed market conditions and the activation of this LMT may be useful to avoid the activation of suspensions.

24. The selection of redemption gates should be considered especially by:

- a) fund managers of funds with a concentrated investor base, where a redemption of a significant size could cause liquidity issues to the fund and affect investors, particularly the remaining ones;
- b) fund managers of funds whose assets might be less liquid, inherently illiquid, or might become illiquid during stressed market conditions and/or assets that might take longer time to sell.

25. Fund managers should consider the activation of redemption gates in cases of redemption requests when the threshold is exceeded. The activation of redemption gates may be less suited where a fund has valuation issues, in which case the manager may consider the use of other LMTs (e.g.: suspensions together with the suspension of the NAV).

26. Fund managers should calibrate the activation threshold in order to ensure that it operates effectively, so that a redemption gate can be activated whenever the manager needs to limit redemptions in the best interest of investors. In calibrating such threshold, managers should give due consideration to:

- a) the NAV calculation frequency;
- b) the investment objective of the fund;
- c) the liquidity of the underlying assets;

¹² No amendments were made to the following sections: 1. Scope, 2. Legislative references, abbreviations and definitions, 3. Purpose, 4. Compliance and reporting obligations.

- d) the current market conditions;
- e) the expected cash flows.

27. Fund managers should not restrict the use of redemption gates in terms of the maximum period over which they can be used (maximum duration of redemption gates) or the maximum number of times that redemption gates can be activated (maximum use of redemption gates), as long as the activation of the gate remains temporary in nature. These matters should be determined by the fund manager on a case-by-case basis.

27.a Fund managers of AIFs with no retail investors and with a limited number of professional investors should consider investor-level redemption gates, alone or in combination with fund-level gates, to mitigate first mover advantage.

5.3 Guidelines on Anti-Dilution Tools (ADTs)

- 33. Fund managers should consider the selection of ADTs for all types of funds to mitigate material investor dilution and potential first mover advantage.
- 34. Fund managers should carefully assess the different levels for the activation of ADTs at fund level and should set in advance and regularly review appropriate and prudent activation thresholds so as to avoid any material dilution impact on investors, in both normal and stressed market conditions and depending on the investment strategy, assets under management, size and portfolio characteristics, estimated cost of liquidity, investor profile, liquidity profile of each fund and historical fund flows.
- 35. Fund managers should consider that the activation of ADTs may be more challenging in certain circumstances, for example, when there is limited market liquidity and/or in cases of valuation uncertainty. In those cases, fund managers may consider the use of other LMTs in addition to ADTs (e.g.: quantitative-based LMTs).
- 36. Fund managers should ensure that the activation of ADTs does not affect the fund manager's duty to value all assets fairly and appropriately at all times.
- 37. Fund managers should activate ADTs both under normal and stressed market conditions to impose the estimated costs of liquidity on subscribing and/or redeeming investors. The estimated cost of liquidity should:

- a) include both explicit and implicit transaction costs of subscriptions, repurchases or redemptions;

a)b) consider implicit transaction costs, including any significant market impact of asset purchases or sales, only where appropriate to the investment strategy and estimated on a best effort basis. A reasonable input for the estimation of the market impact could be to analyse previous transactions under similar market conditions to compare the difference between the price when the order was placed and the final executed price;

b)c) be based, as a starting point, on costs associated with transacting a pro-rata slice of all assets in the portfolio (i.e. “pro-rata approach”), unless this does not represent a fair estimate of the true liquidity cost. Where the pro-rata approach does not represent a fair estimate of the liquidity cost, the estimation can be adjusted to reflect more accurately the expected cost of liquidity when transacting in selected single holdings of the portfolio. Managers may consider using the pro-rata cost in stressed times, when it is most relevant for mitigating the potential dilution impact on the remaining investors.

38. In order to ensure that the calibration of ADTs effectively reflects the estimated costs of liquidity, as per the previous paragraph, the fund manager should regularly review the calibration and adjust it when needed.

39. Fund managers should be able to demonstrate, at the request of the relevant NCA, that the calibration of ADTs is fair and reasonable for both normal and stressed market conditions, taking into account the best interests of investors.

5.3.2 Guidelines on swing pricing

42. Fund managers should consider the selection of swing pricing for funds whose underlying assets are actively traded and information on trading costs (bid/ask) is available and frequently updated, particularly where the funds invest mainly in assets with market contingent liquidity costs. Fund managers should consider that swing pricing may be less appropriate when trading costs are not readily available

40. Fund managers should base a decision to activate a specific swing pricing model (i.e.: full, partial with a single or tiered swing factor), and the calibration of the swing factor, on market conditions, based on a methodology determined by the fund manager.

41. When calibrating swing pricing, fund managers should ensure that the estimated cost of liquidity, in light of the market conditions and in line with the principles in paragraph 37, is incorporated in the swing factor, including, where appropriate, any significant market impact of the trades.

42. Fund managers may set a maximum swing factor. In case the swing factor adjustment goes beyond the maximum swing factor, the fund manager should be able to justify, if required by the competent authority, on an ex-post basis the swing factor applied.
43. Fund managers should ensure that a decision to recalibrate the maximum swing factor is justified and made in the best interest of the investors.

5.3.3 Guidelines on Anti-Dilution Levy (ADL)

49. Fund managers should consider ADL to be especially appropriate for funds:
- a) with a high investor concentration (i.e.: a small number of investors), to address the risk that one or more investors could fully redeem their shares at a short notice;
 - b) with significant levels of subscription and/or redemption activity that could negatively impact the fund's existing investors (e.g.: smaller funds in terms of NAV could be more impacted by the cost of liquidity caused by large redemptions);
 - c) that invest in less liquid assets (e.g.: high yield bonds, small cap equities);
 - d) where information on trading costs (bid/ask) is generally available (e.g.: funds that invest in assets with market contingent liquidity costs).
50. Fund managers should note that ADL can be activated on an ongoing basis or dynamically based on pre-defined triggers and thresholds.
51. While the ADL may be implemented consistently during normal market conditions, fund managers should review its calibration in relation to changing market conditions to ensure its effectiveness in preserving the fund's liquidity.
52. Fund managers should calibrate ADL based on the same factors used to calibrate swing factors, i.e.: the calibration of ADL should include all estimated explicit and estimated implicit transaction costs, where appropriate and in line with the principles in paragraph 37, and it should be reviewed and, where needed, adjusted to ensure that the levy can evolve on a regular basis in light of the market conditions.