Reply form

**On the Regulatory Technical Standards on Liquidity Management Tools under the AIFMD and UCITS Directive**

Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions summarised in Annex 1. Comments are most helpful if they:

* respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

ESMA will consider all comments received by **8 October 2024.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

Instructions

In order to facilitate analysis of responses to the Call for Evidence, respondents are requested to follow the below steps when preparing and submitting their response:

• Insert your responses to the questions in the Call for Evidence in this reply form.

• Please do not remove tags of the type < ESMA\_QUESTION\_GLMT\_0>. Your response to each question has to be framed by the two tags corresponding to the question.

• If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.

• When you have drafted your responses, save the reply form according to the following convention: ESMA\_CP1\_GLMT\_nameofrespondent.

For example, for a respondent named ABCD, the reply form would be saved with the following name: ESMA\_CP1\_GLMT \_ABCD.

• Upload the Word reply form containing your responses to ESMA’s website (**pdf**  **documents will not be considered except for annexes**). All contributions should be submitted online at <https://www.esma.europa.eu/press-news/consultations/consultation-liquidity-management-tools-funds> under the heading *‘Your input -*  *Consultations’.*

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

**Data protection**

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘[Data protection](https://www.esma.europa.eu/about-esma/data-protection)’.

**Who should read this paper?**

This document will be of interest to alternative investment fund managers, AIFs, management companies, UCITS, and their trade associations, depositories and their trade associations, as well as professional and retail investors investing into UCITS and AIFs and their associations.

# General information about respondent

|  |  |
| --- | --- |
| Name of the company / organisation | Schroders Investment Management (Europe) SA |
| Activity | Asset management |
| Country / Region | Luxembourg |

# Questions

1. Do you agree with the proposed characteristics of suspension of subscriptions, repurchases and redemptions? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_1>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_1>

1. Do you agree that orders that have been placed but not executed before the fund manager suspends shall not be executed until the suspension is lifted? If not, please explain why these orders shall be executed.

<ESMA\_QUESTION\_SLMT\_2>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_2>

1. Once the fund is reopened for subscriptions, repurchases and redemptions, what would be your approach to redemption orders that have not been executed before the fund was suspended?

<ESMA\_QUESTION\_SLMT\_3>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_3>

1. Do you think there are circumstances where subscriptions, repurchases and redemptions may not be reopened simultaneously? If yes, what are these circumstances?

<ESMA\_QUESTION\_SLMT\_4>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_4>

1. Can you think of any further characteristics of suspension of subscriptions, repurchases and redemptions?

<ESMA\_QUESTION\_SLMT\_5>

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<ESMA\_QUESTION\_SLMT\_5>

1. Do you think there is merit for the characteristics of suspension of subscriptions, repurchases and redemptions gates to differ between different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_6>

<ESMA\_QUESTION\_SLMT\_6>

1. Do you agree with the description of redemption gates and their characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_7>

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<ESMA\_QUESTION\_SLMT\_7>

1. The draft RTS provides that the redemption gate threshold shall be expressed as a percentage of the NAV of the fund considering the net redemption orders for a given dealing day. Are you aware of any other method that ESMA should consider in the RTS? If yes, please explain.

<ESMA\_QUESTION\_SLMT\_8>

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<ESMA\_QUESTION\_SLMT\_8>

1. Do you agree that redemption gates may be either activated automatically when the activation threshold is exceeded or that the fund manager/ fund Boards may decide whether or not to activate the redemption gate? Do you believe that automatic activation of redemption gates could create a first mover advantage?

<ESMA\_QUESTION\_SLMT\_9>

Yes – we support the proposal that the manager should have discretion as to whether to meet the redemption in full if it would not disadvantage other investors. It may be more efficient and effective to meet all redemption orders above the stated activation threshold on that dealing date. The automatic trigger should therefore be permitted to be overridden if the manager deems that this is appropriate. To avoid the automatic activation of redemption gates creating a first mover advantage, a gate at the redemption level could be applied to ensure that the same gate percentage is applied to all redemptions placed at that dealing date. This can be applied only after the dealing cut-off, once the overall redemption requests have been assessed to determine the redemption percentage to be gated.

<ESMA\_QUESTION\_SLMT\_9>

1. Do you think that the automatic activation of redemption gates shall not be permitted for some types of funds. If yes, please explain your position.

<ESMA\_QUESTION\_SLMT\_10>

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<ESMA\_QUESTION\_SLMT\_10>

1. Do you agree that the activation threshold shall not be expressed at the level of the single redemption order? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_11>

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<ESMA\_QUESTION\_SLMT\_11>

1. In the case of activation of redemption gates, do you agree that investors should have the right to cancel the non-executed part of their redemption orders? In particular, should there be a different approach between UCITS and AIFs?

<ESMA\_QUESTION\_SLMT\_12>

Yes – this should be considered on a fund by fund basis, but the option to cancel non-executed redemption requests should be considered.

<ESMA\_QUESTION\_SLMT\_12>

1. Do you think there is merit in having different characteristics of redemption gates for different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_13>

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<ESMA\_QUESTION\_SLMT\_13>

1. In the case of funds with multiple share classes, do you agree that the same redemption gate shall apply to all share classes? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_14>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_14>

1. Can you think of any further characteristics of redemption gates?

<ESMA\_QUESTION\_SLMT\_15>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_15>

1. Do you agree with the description of extensions of notice period and their characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_16>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_16>

1. Do you agree that the same extension of notice period shall apply to all investors or different extensions of notice periods per share class/unit shall be allowed? Please justify your position.

<ESMA\_QUESTION\_SLMT\_17>

We believe that the same extension of the notice period, considered as LMT, should be applied to all investors. Since the portfolio is held at the sub-fund level and not the share class level, all investors in the sub-fund should be treated equally from this perspective.

<ESMA\_QUESTION\_SLMT\_17>

1. Do you agree that extensions of notice period may be applied for a pre-defined period of time (for a pre-defined number of dealing dates)? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_18>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_18>

1. Do you think there is merit for the characteristics of extensions of notice period to differ between different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_19>

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<ESMA\_QUESTION\_SLMT\_19>

1. How would you execute redemption orders that have been placed but not executed before the notice period is extended? Would you execute them under the original notice period, or would you execute them at the following dealing day?

<ESMA\_QUESTION\_SLMT\_20>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_20>

1. How would you ensure fair treatment of investors when deactivating the extension of notice period?

<ESMA\_QUESTION\_SLMT\_21>

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<ESMA\_QUESTION\_SLMT\_21>

1. Do you agree with the description of redemption fees and the corresponding characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_22>

We Disagree – the description of redemption fees states “a predetermined fixed fee”. Whilst this might be appropriate for public asset funds, private asset funds can make use of a flexible redemption fee (up to a threshold) that reflects the cost of trading specific securities and market conditions. This is due to the fund not being able to trade an even slice of the portfolio in the same manner a public asset fund is able to.

<ESMA\_QUESTION\_SLMT\_22>

1. Can you think of any other redemption fee mechanism than the ones described above? If yes, please provide examples.

<ESMA\_QUESTION\_SLMT\_23>

Redemption fees might need to be implemented in certain market conditions; therefore the fee might be within a range (e.g. 0-5%). This allows no redemption fees to be charged if there are minimal costs of trading. The current definition doesn’t allow redemption fees to be set to zero, which reduces flexibility.

<ESMA\_QUESTION\_SLMT\_23>

1. Do you think there is merit for the characteristics of redemption fees to differ between different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_24>

Yes – redemption fees for AIFs that invest in private assets warrant greater flexibility than is required for UCITS funds.

<ESMA\_QUESTION\_SLMT\_24>

1. Do you agree with the description of swing pricing and the corresponding characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_25>

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<ESMA\_QUESTION\_SLMT\_25>

1. Can you think of any characteristics of swing pricing that the ones described above?

<ESMA\_QUESTION\_SLMT\_26>

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<ESMA\_QUESTION\_SLMT\_26>

1. Do you think there is merit for the characteristics of swing pricing to differ between different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_27>

AIFs investing in private assets (with less frequent dealing dates) will have opportunity to calibrate the swing factor on a case by case basis to reflect explicit and implicit costs of trading a specific position in order to raise liquidity. This less automated approach provides desired flexibility for AIFs. UCITS funds can adopt a more automated approach given the greater consistency of trade costs and the opportunity to trade an even slice of the portfolio.

<ESMA\_QUESTION\_SLMT\_27>

1. Do you agree that in the case of funds with multiple share classes, the same swing factor shall be applied to all share classes? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_28>

Applying the swing factor at the share-class level could be beneficial for managing transaction costs of trades executed and booked at the share-class level, such as share-class hedging. This approach ensures that the remaining investors in the share-class do not bear the transaction costs triggered by the hedging adjustment due to redemptions. These costs can b significant, particularly in the case of large redemptions relative to the size of the share-class.

<ESMA\_QUESTION\_SLMT\_28>

1. Do you agree with the description of the dual pricing and the corresponding characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_29>

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<ESMA\_QUESTION\_SLMT\_29>

1. Are there any other calculation methods for dual pricing that should be considered? If yes, please give example.

<ESMA\_QUESTION\_SLMT\_30>

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<ESMA\_QUESTION\_SLMT\_30>

1. Do you think there is merit for the characteristics of dual pricing to differ between different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_31>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_31>

1. Do you agree with the description of the anti-dilution levy and the corresponding characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_32>

When it says there can be a pre-determined activation threshold, for private asset funds this may need to be tied to redemptions if sales of underlying assets are required to meet redemptions (as opposed to size of flow).

<ESMA\_QUESTION\_SLMT\_32>

1. Are there any other calculation methods for anti-dilution levy that ESMA shall consider? If yes, please give example.

<ESMA\_QUESTION\_SLMT\_33>

In the dilution levy, the cost of trades executed at a time that differs from the pricing point of the fund could be considered.

<ESMA\_QUESTION\_SLMT\_33>

1. In the case of funds with multiple share classes, would you see the possibility for different anti-dilution levies depending on share classes? Please justify your position.

<ESMA\_QUESTION\_SLMT\_34>

There may be commercial aspects to consider where the manager may wish to introduce different ADTs for different share classes. Given the relationship between the manager and investors this may be appropriate.

Applying the Additional Dilution Levy (ADL) at the share-class level could be beneficial for managing the transaction costs of trades executed and booked at the share-class level, such as share-class hedging. This approach ensures that the remaining investors in the share-class do not bear the transaction costs triggered by hedging adjustments due to redemptions. These costs can be significant, particularly in the case of large redemptions relative to the size of the share-class.

<ESMA\_QUESTION\_SLMT\_34>

1. Do you think there is merit for the characteristics of anti-dilution levy to differ between different investment strategies and between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_35>

The characteristics for funds investing in private assets (AIFs) relative to public markets may differ given different process for raising liquidity, as well as less frequent dealing dates. Trading costs vary more significantly as well.

<ESMA\_QUESTION\_SLMT\_35>

1. Do you agree with the description of redemptions in kind and the corresponding characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_36>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_36>

1. Can you think of any characteristics of redemptions in kind?

<ESMA\_QUESTION\_SLMT\_37>

Redemptions in kind are applicable only if requested by the redeeming investor. From a commercial perspective, it is not ideal to liquidate the investor's investment through the physical delivery of assets rather than cash delivery. As consequence, RIK can be limited used as LMT.

<ESMA\_QUESTION\_SLMT\_37>

1. Do you think there is merit for the characteristics of redemption in kinds to differ between different investment strategies between AIFs and UCITS? If yes, how?

<ESMA\_QUESTION\_SLMT\_38>

We note that redemption in kind for private asset vehicles is often far more challenging and is considered on a case-by-case basis (given the type of investor, underlying investment etc.). Given a pro-rata slice of a portfolio is almost impossible for AIFs investing in private assets, meaning a redemption in kind corresponding to a pro-rata share of the assets is difficult for AIFs.

<ESMA\_QUESTION\_SLMT\_38>

1. Do you agree with the description of side pockets and the corresponding characteristics? If not, please justify your position.

<ESMA\_QUESTION\_SLMT\_39>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_39>

1. Do you agree that in the case of UCITS, side pockets created by physical separation should only be done with the creation of a new UCITS where the assets for which there are no problems are placed? If not, please explain your position.

<ESMA\_QUESTION\_SLMT\_40>

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<ESMA\_QUESTION\_SLMT\_40>

1. Can you think of any other characteristics of side pockets that ESMA should consider? In particular, do you think that the characteristics of side pockets shall differ between UCITS and AIFs (in addition to the creation of side pockets via physical separation of the assets)? If, yes please elaborate.

<ESMA\_QUESTION\_SLMT\_41>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_41>

1. Do you see merit in specifying further the characteristics that side pocket created by means of accounting segregation should have? If yes, can you please explain how you have created side pocket via accounting segregation? Have you encountered any legal constraints or are you aware of any legal constraints in your jurisdiction that may limit the use of side pockets via asset segregation?

<ESMA\_QUESTION\_SLMT\_42>

The side pocket created through accounting segregation only exists on the accounting side, while the custody accounts remain the same as those of the original fund. Consequently, from an operational perspective, it is necessary to manually reconcile the side pocket with the custody account, which increases operational risk. Therefore, it would be beneficial to allow flexibility in opening a custody sub-account specific to the side pocket to facilitate the reconciliation process.

<ESMA\_QUESTION\_SLMT\_42>

1. Do you agree that the assets in the side pocket should always be managed with the view to liquidate them? Or could there be circumstances, where a reintegration with the normal assets could be contemplated? Please explain.

<ESMA\_QUESTION\_SLMT\_43>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_SLMT\_43>

1. Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the option taken by ESMA as regards the characteristics of LMTs set out in Annex IIA of the UCITS Directive? Which other types of costs or benefits would you consider in that context?

<ESMA\_QUESTION\_SLMT\_44>

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<ESMA\_QUESTION\_SLMT\_44>

1. Is there any ESG and innovation-related aspects that ESMA should consider when drafting the RTS under the UCITS Directive?

<ESMA\_QUESTION\_SLMT\_45>

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<ESMA\_QUESTION\_SLMT\_45>

1. Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the option taken by ESMA as regards the characteristics of LMTs set out in Annex V of the AIFMD? Which other types of costs or benefits would you consider in that context?

<ESMA\_QUESTION\_SLMT\_46>

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<ESMA\_QUESTION\_SLMT\_46>

1. Is there any ESG and innovation-related aspects that ESMA should consider when drafting the RTS under the AIFMD?

<ESMA\_QUESTION\_SLMT\_47>

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<ESMA\_QUESTION\_SLMT\_47>