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Liquidity Management Transformed

What AIFMD 2 Means for UCITS and Open-Ended AIFs

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1. Introduction

Directive (EU) 2024/927, otherwise known as "AIFMD 2" is ushering in a new era for liquidity risk management protocols across the European funds industry. AIFMD 2 together with the recently published final draft Regulatory Technical Standards (**RTS**) and Guidelines on liquidity management tools (**LMTs**) from ESMA (**ESMA Guidelines**) will reshape how UCITS, (in conjunction with UCITS management companies, where relevant) and AIFMs select, implement, and govern LMTs with respect to UCITS funds and open-ended alternative investment funds (**AIFs**). The new regime is designed to harmonise practices across EU countries, bolster market stability and enhance investor protections generally across the EU. AIFMD 2 is required to be implemented by all EU member states by 16 April 2026.

This briefing unpacks the new requirements and provides practical guidance for managers of both UCITS and open-ended AIFs.

2. Background: Regulatory and market drivers for change

The introduction of AIFMD 2 follows a period of heightened regulatory focus on liquidity risk, particularly in the wake of the 2008 global financial crisis and subsequent episodes of unprecedented market volatility. These events highlighted longstanding challenges in fund liquidity management, especially where redemption demands risk disadvantaging remaining investors or destabilising markets. Despite efforts by both EU and national regulators to strengthen oversight, previous frameworks under AIFMD and UCITS left significant discretion to national regulators, resulting in inconsistent standards, divergent approaches, and potential gaps in investor protection. Recognising these shortcomings, AIFMD 2, together with the new RTS and ESMA Guidelines, aims to introduce a harmonised, EU-wide approach to the selection and operation of LMTs, ensuring that all European fund managers have access to a common toolkit and clear standards for their use.

LMTs must now be selected from a prescribed list, and their use must be consistent with each fund's investment strategy, liquidity profile, and redemption policy. At least two LMTs must be available for each fund, in addition to suspension of dealing and side pockets, which will be available in respect of all UCITS and open-ended AIFs.

3. Impact on UCITS and AIFs

(A) Core Requirements

UCITS and AIFs

- **Selection of LMTs[1]:** In addition to suspension and side pockets, at least two additional LMTs must be available in respect of all UCITS and open-ended AIFs, with one quantitative and one anti-dilution tool recommended.
- **Alignment with Fund Features:** LMTs must be consistent with the relevant fund's investment strategy, liquidity profile, and redemption policy, with suitability assessments documented and stress testing results considered.
- **Operational Readiness:** Systems and procedures must be in place to activate, calibrate, and monitor LMTs. Pre-contractual documents must specify available LMTs and activation / deactivation conditions, and governance arrangements. Ongoing investor disclosures are required for any material changes.
- **Money market fund exemption:** For money market funds, only one additional LMT is required.

(B) LMT Toolkit

The additional LMTs must be selected from the following list.

Managers may also use additional liquidity management measures, provided these are clearly distinguishable from the harmonised LMTs and not confused with those set out in AIFMD 2:

LMT 1	**Suspension of Dealing – temporary suspension of all subscriptions and redemptions in a fund**	• "All or nothing" suspensions, only in exceptional circumstances (e.g. severe liquidity issues, valuation difficulties, market closures, or cyber incidents), as set out in AIFMD 2. • The previous power under Article 84 of the UCITS Directive, which allowed UCITS to suspend subscription and redemption orders in specific circumstances, has been replaced by a broader regime aligned with AIFMD 2. • This new regime requires consideration of the existence and use of LMTs as

[1] The amendments to the UCITS Directive require UCITS fund to select the LMTs whereas it is the AIFM who makes the selection under the AIFMD amendments. In practice we expect it to be the UCITS managers working with the board of the relevant UCITS who will agree the selection between them.

		alternatives to suspending subscriptions and redemptions, thereby providing a more harmonised and flexible approach to liquidity risk management across the EU. • Use of other LMTs should be considered as an alternative.
LMT 2	**Redemption Gates – limits on the amount of redemptions processed on a dealing day**	• Must have clear, quantifiable activation thresholds (e.g. as a % of NAV or liquid assets), in line with AIFMD 2. • The final RTS adopted by the Commission differentiate between UCITS and AIFs[2]
LMT 3	**Extension of Notice Periods – longer notice periods to redeem units**	• Permitted for funds with liquidity profiles susceptible to stress, as envisaged by AIFMD 2. • Extended notice periods shall cover the period between the receipt of the redemption order and its execution but not the time required for settlement.
LMT 4	**Redemption Fees – fees charged to investors redeeming units to reflect the true cost of liquidity**	• These fees must be set within a predetermined range, as required by AIFMD 2. • Explicit and implicit transaction costs should be taken into account for the predetermined range of redemption fees.
LMT 5	**Swing Pricing – adjustment of NAV by applying a 'swing factor'**	• NAV adjustments to reflect liquidity costs, ensuring that transaction costs are borne by investors subscribing or redeeming.
LMT 6	**Dual Pricing – imposing separate buy (offer) and sell (bid) prices to create a bid-offer spread**	• The NAV is adjusted by a factor which reflects the true cost of liquidity.
LMT 7	**Anti-Dilution Levies – charges to offset dilution from large transactions**	• Fees to offset liquidity costs / dilution effects on existing investors triggered by predefined thresholds of investor activity, as per AIFMD 2.

[2] UCITS use a single, fund-wide threshold based on NAV and apply it equally to all investors, processing redemptions proportionally. AIFs have more flexibility, allowing thresholds at both the fund and investor level, and can express the threshold in several different ways (NAV proportion, monetary value, liquid assets percentage, or a mix).

LMT 8	**Redemptions in Kind – satisfying redemptions by transferring assets rather than cash**	• Permitted for professional investors, subject to fund structure and investor mix, as allowed by AIFMD 2. • A redemption in kind tool used by an ETF 'in the course of their regular dealing activities' shall not be considered an activation of this LMT.
LMT 9	**Side Pockets – segregation of distressed / illiquid assets**	• Segregation of assets for which economic or legal features have changed significantly or become uncertain due to exceptional circumstances (**Side Pocket Assets**) from other assets of the relevant fund. • Side pockets can be structured in two ways: (i) as an accounting side pocket, with Side Pocket Assets ring-fenced and attributable to a particular share class, which is not redeemable; or (ii) as a physical side pocket, where Side Pocket Assets and non-Side Pocket Assets are separated into different funds, with investors holding shares in both the Side Pocket Asset fund and the non-Side Pocket Asset fund. In respect of a UCITS, the Side Pocket Assets must remain in the original fund, with non-Side Pocket Assets moving to a new fund, with the Side Pocket Asset fund being managed with the sole objective of being liquidated. • Side-pockets and suspension of dealing should only be utilised in exceptional cases[3], where the circumstances so require and where doing so is justified having regard to the interests of investors.

[3] Exceptional cases may include, but are not limited to, situations where assets become illiquid or difficult to value as a result of extraordinary events such as market disruptions, the imposition of sanctions, or other crisis scenarios. These examples are non-exhaustive and are drawn from the European Commission's legislative proposal and the ESMA Consultation Paper on AIFMD 2 from 8 July 2024.

(C) Governance, Disclosure & Suitability

UCITS and AIFs

(1) Prospectuses and constitutive documents must specify available LMTs, activation/deactivation conditions, governance arrangements and implications for investors (note that for Irish Collective Asset-management Vehicles (**ICAVs**) and Investment Limited Partnerships (**ILPs**) (which are the most common types of fund structures in Ireland), the constitutive documents – the instrument of incorporation (ICAVs) and limited partnership agreements (ILPs), these can be updated without having to obtain investor consent if the depositary certifies that the amendments do not result in a material prejudice to investors). For funds which are established as plcs, (which will most likely mainly be UCITS), unit trusts and common contractual funds, extra consideration will need to be given to any amendments to their constitutional documents as shareholder approval will be required which will impact on timeframes for compliance. Please refer to Appendix I for a summary of the changes to fund offering documents, constitutive documents and certain service provider contracts.

(2) Managers must assess LMT suitability against the fund's legal structure, investment strategy, dealing terms, liquidity profile, investor base, and stress testing results.

(3) Managers must ensure robust oversight of LMTs, with clear policies and procedures for activation, calibration, and monitoring, and provide full investor disclosure including rationale for selected LMTs and circumstances for use.

(4) Managers will be required to notify its national competent authority when an LMT is activated / deactivated without delay (LMTs 1-8) save for side-pockets (LMT 9) where the notification must be made within a reasonable timeframe before activation or deactivation.

(D) Liquidity Management Policy (LMT Policy)

A detailed LMT Policy is required for each open-ended fund under management. The LMT Policy is a cornerstone of the new regime, ensuring that the selection, activation, deactivation, and ongoing operation of LMTs are robustly governed and documented.

Key Elements of an LMT Policy

Scope and Applicability

The LMT Policy should reflect the full range of open-ended products managed by the firm, taking into account the diversity of investment strategies, asset classes, liquidity profiles, and dealing frequencies.

Selection and Suitability

The LMT Policy must document the process for assessing the suitability of each LMT in relation to the relevant fund's investment strategy, liquidity profile, redemption policy, legal structure, investor base, and results of liquidity stress testing. The ESMA Guidelines recommend that the selection is as comprehensive as possible, typically including at least one quantitative tool and one anti-dilution tool.

Activation and Deactivation Criteria

Clear criteria and calibrations for the activation and deactivation of each LMT must be set out, including escalation procedures and decision-making processes for both normal and stressed market conditions.

Operational Arrangements

The LMT Policy should detail the operational steps for implementing each LMT, including coordination with fund administrators, distributors, and other service providers. Special consideration should be given to arrangements involving omnibus and nominee accounts.

Governance and Oversight

The LMT Policy must specify governance arrangements, including roles and responsibilities for oversight of LMTs, and ensure alignment with the firm's broader liquidity risk management framework.

Regulatory Notification

Procedures for communicating the LMT Policy and any changes to the home Member State NCA must be included, as well as notification protocols for activation or deactivation of LMTs as required by AIFMD 2.

Staff Training

The LMT Policy should include provisions for staff training on the operation, governance, and practical application of LMTs.

Review and Update

A process for periodic review and update of the LMT Policy should be established to ensure ongoing compliance and effectiveness.

4. Implementation Roadmap for Managers and Fund Boards

To ensure compliance with the new EU framework by the relevant deadlines, managers and fund boards should follow a structured implementation plan

What should Managers and Funds Boards do to prepare?

(1) Gap Analysis and Initial Review

- Review existing liquidity management frameworks, policies and operational practices against AIFMD 2 requirements and the Delegated Acts / RTS / ESMA Guidelines.
- Map current LMTs in use, assess whether at least two appropriate tools (excluding suspension of dealing and side pockets) are available for each open-ended fund, and identify any areas where current arrangements fall short.
- Document the suitability assessment considering all relevant factors.

(2) Policy and Documentation Updates

- Revise and update internal policies and procedures to ensure full compliance, including formalising the selection, activation, calibration, and monitoring of LMTs.
- Update fund documentation, including prospectuses and constitutional documents, to specify available LMTs, activation/deactivation conditions, and governance arrangements.

(3) Staff Training and Operational Readiness

- Train all relevant staff on the operation, governance, and practical application of LMTs.
- Ensure operational arrangements with fund administrators, distributors, and other service providers are updated to support the new LMT regime.

(4) Investor Communication

- Update investor disclosures to clearly set out which LMTs are available, the conditions under which they may be activated or deactivated, and the potential impact on investors.
- Establish transparent communication protocols for notifying investors of any changes to LMT arrangements or activation of tools.

(5) Ongoing Monitoring and Stress Testing

- Implement a robust framework for ongoing monitoring and regular stress testing of fund liquidity and the effectiveness of LMTs.
- Conduct periodic reviews and scenario analysis and ensure regular reporting to senior management and the board (manager).

(6) Regulatory Engagement and Notifications

- Prepare for regulatory notifications as required by AIFMD 2, the Delegated Acts and ESMA Guidelines.

(7) Project Management and Implementation

- Begin the process of updating fund documentation and internal policies as early as possible.
- Liaise with legal and regulatory advisers to ensure all changes are implemented in a timely and coordinated manner.
- Monitor regulatory developments and guidance from the Central Bank and ESMA to ensure ongoing compliance.

Summary Checklist

- Complete gap analysis and suitability assessment for all open-ended funds.
- Update LMT Policy, fund documentation, and operational arrangements.
- Train staff and service providers on new LMT requirements.
- Communicate changes and LMT activation protocols to investors.
- Implement ongoing monitoring, stress testing, and reporting.
- Prepare and execute regulatory notifications as required.
- Engage with regulatory consultations and guidance.
- Ensure all changes are completed ahead of the relevant deadline.

By taking these steps now, UCITS, UCITS management companies and AIFMs will be well-positioned to meet both EU and domestic regulatory expectations and to maintain robust investor protection and market stability as the new regime comes into force. Importantly, it will not be enough to simply list the available LMTs in the fund documentation; firms will also be required to include a description of liquidity risk management, including redemption arrangements and when and how LMTs may be used.

5. Next steps

On 17 November 2025, the European Commission adopted the RTS in the form of two Delegated Acts - one amending the UCITS Directive and one amending AIFMD (**Delegated Acts**).

These Delegated Acts are now subject to a three-month scrutiny period.

The RTS, as incorporated into the Delegated Acts, are substantively identical to the final draft RTS issued earlier this year, except for one targeted amendment relating to the calculation of the activation threshold for the redemption gates LMT, as set out above.

UCITS, UCITS management companies and AIFMs are expected to ensure compliance with AIFMD 2 once implemented in Ireland, which is expected to be prior to 16 April 2026, and with the associated Delegated Acts and ESMA Guidelines by the date upon which they each become effective, which is expected in Q1 2026 and no later than 16 April 2026. A one year transitional period will be available to funds in respect of funds established prior to 16 April 2026 in respect of the RTS and the ESMA Guidelines.

In parallel, the Central Bank is actively progressing its own implementation of AIFMD 2. Through Consultation Papers CP161 and CP162, the CBI has proposed significant amendments to Central Bank UCITS Regulations (*Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations 2019 (S.I. No. 230 of 2019)*) (**Central Bank UCITS Regulations**) and the Alternative Investment Fund Rulebook (**AIF Rulebook**) to align Irish requirements with the new EU framework. These proposals include the integration of ESMA's LMT standards, the removal of duplicative or outdated provisions, and the introduction of new obligations for managers regarding the oversight and disclosure of LMTs.

The Central Bank has also issued a Markets Update specifically addressing the implementation of AIFMD 2 and the required updates to fund documentation. The Central Bank has made clear that managers should not delay in preparing for these changes. Managers are expected to review and update the fund documentation of funds under management, including prospectuses and constitutional documents, in line with both the new EU requirements and the forthcoming amendments to the Central Bank UCITS Regulations and the AIF Rulebook. The Central Bank has confirmed that a fast-track filing procedure will be in place for any updates to fund documents (prospectus and supplements) to reflect AIFMD 2 but excluding changes to investment objective and policy. Additional updates from the Central Bank are expected in respect of timing and process for these updates.

6. Implementation timelines and key dates

5 November 2025	CP 161/162 consultation closed
Expected Q4 2025 / Q1 2026	Updated AIF Rulebook / Central Bank UCITS Regulations
17 February 2026	End of scrutiny period of Delegated Acts
Q1 2026	• Delegated Acts / RTS published in the Official Journal • Application of ESMA Guidelines
16 April 2026 (at the latest)	• AIFMD 2 Member State Implementation Deadline • Application of Delegated Acts
16 April 2027	End of transitional period in respect of UCITS and open-ended AIFs established prior to 16 April 2026

Appendix I

Document	Summary of Changes
Prospectus	Revisions to set out the potential use of specific LMTs, including a clear explanation of which LMTs may be utilised, the circumstances and conditions under which they may be applied, and the potential impact on investors. An updated, comprehensive list of all fees, charges, and expenses incurred by the UCITS / AIF.
Constitutional Document	Amendments may be necessary to ensure constitutional documents provide the authority to implement the selected LMTs.
Investment Management Agreement	Amendments may be needed to ensure these agreements accurately reflect the AIFM's increased responsibilities in relation to liquidity management.
Administration Agreement	Amendments to fund administration agreements may be necessary to ensure that the implementation of LMTs, as well as the associated operational procedures, are clearly agreed and documented.

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