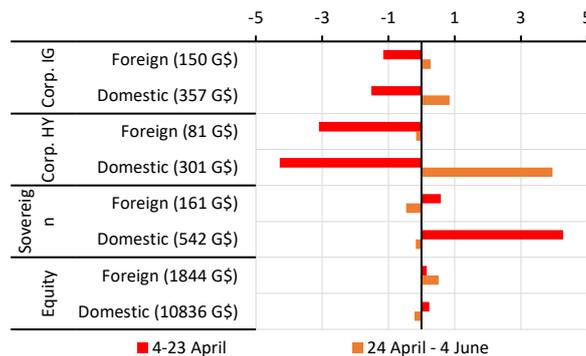


Increasing funds' adoption of liquidity management tools

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The growth of investment funds in the financial sector has given rise to new risks. The Covid-19 crisis showed how exposed they can be to the threat of large-scale redemptions when market liquidity becomes scarce. More recently, the shock of the “Liberation Day” announcements triggered a reaction from investors in US-exposed funds. To limit the risk of forced sales that could amplify financial shocks, European authorities are encouraging funds to use liquidity management tools.

Chart 1: Aggregate flows of global funds investing in the US after US tariff announcements (% of assets under management)



Sources: EPFR data and Banque de France calculations using weekly flow data.

Notes: Figures in brackets show total assets under management as at 4 June 2025. Domestic funds are those domiciled in the United States and whose investment mandate includes US equities, sovereign bonds and corporate bonds rated “investment grade” (IG) and high yield (HY). Foreign funds are those domiciled outside the United States and whose mandate is to invest in the same asset classes in the United States.

Liquidity management tools allow funds to weather periods of stress

Open-ended investment funds, where investors can invest and withdraw their money throughout the life of the fund, can be exposed to liquidity risk if investors are allowed to redeem their shares at a higher frequency than the estimated time required to sell portfolio assets without an excessive discount. The risk can increase during crises, when underlying

market liquidity dries up and prices adjust more slowly, prompting investors to accelerate their redemption requests (first-mover advantage).

In the wake of Liberation Day, investors withdrew massively from funds investing in US corporate bonds (both American and foreign funds) as they were more exposed to the fallout from the tariff announcements. In parallel, investors shifted more towards US funds invested in US sovereign debt, while flows into and out of US equity funds (whether domiciled in the US or abroad) remained broadly stable (Chart 1).

Regulations require fund managers to monitor their liquidity risk on an ongoing basis. However, some also use liquidity management tools (LMTs), which allow them to better control liquidity risk by limiting redemption volumes, or by passing on to investors the (extra) liquidity cost linked to selling off assets rapidly at a potential loss.

LMTs can be broken down into two main types:

- Price-based tools: these consist in determining the cost of liquidity at the time of redemption and passing it on to redeeming investors, either by adjusting the net asset value of their redemption (swing pricing), or by adjusting exit or entry fees (anti-dilution levies or ADLs). Managers use these tools in the day-to-day management of their funds as they allow liquidity costs to be spread more fairly across investors. However, in periods of market stress it can be more difficult to determine the cost of liquidity.
- Quantity-based tools: these involve temporarily suspending or capping (gates) subscriptions or redemptions as well as extending notice periods for redemptions. They make funds less liquid and are generally reserved for periods of major stress.

The economic literature has tended to focus on bond funds and price-based LMTs (notably swing pricing) and assessed whether the presence or activation of these tools affects the magnitude and volatility of outflows, first-mover advantage and the risk of runs.

For example, [Jin et al. \(2022\)](#) use UK data to show that swing pricing can reduce the magnitude and volatility of redemptions during crises, but can also reduce subscriptions the rest of the time. Studies of the financial turmoil of March 2020 underline the importance of calibration in making LMTs more effective ([Baena and Garcia \(2023\)](#), [Lewrick et al. \(2022\)](#)). Using Irish data, [Dunne et al. \(2023\)](#) show that funds applying ADLs (price-based tools) in addition to quantitative tools had lower redemptions than funds that only had access to quantitative tools. However, a lack of harmonised data makes it difficult to compare LMT usage and effectiveness across Europe.

Funds are gradually adopting LMTs

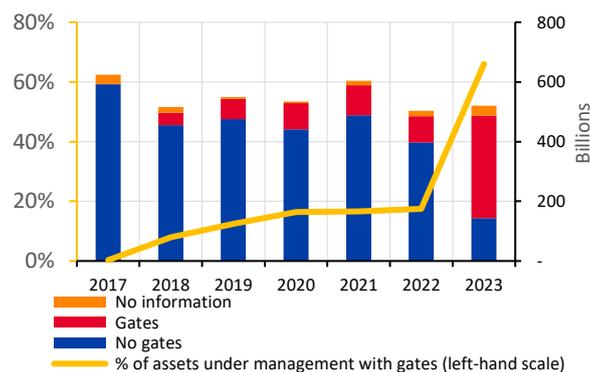
Until recently, there was no harmonised, EU-wide regulatory framework for LMTs. In France, swing pricing was incorporated into national regulations in 2014, while the widespread adoption of gates dates back to 2016. However, while French funds thus had legal access to the full range of standard LMTs as of 2016, they still had to introduce them in their regulatory and contractual documents to be able to use them ([Darpeix et al., 2020](#)).

In practice, French funds adopted the tools relatively slowly ([Darpeix et al., 2021](#)), probably due to the reluctance of institutional investors and a “stigma” effect. Adoption only really

accelerated in 2022 and 2023, with the introduction of incentives by the *Autorité des Marchés Financiers* (AMF – Financial Markets Authority). These included: (1) the introduction of a transitional period allowing managers to adopt redemption gates without giving investors the option to redeem units free of charge; (2) the alignment of conditions for introducing ADLs with those for swing pricing, which are less strict; and (3) the obligation for funds that had not adopted redemption gates by 31 December 2023 to indicate this in their prospectus and justify their decision to the AMF.

As a result, the aggregate share of French funds' total net assets covered by redemption gates rose from 2% at the end of 2017 to 11% in 2022, and then to 28% at the end of 2023. Similarly, the share of funds with swing pricing rose from 6% in 2022 to 14% in 2023 ([Darpeix et al., 2024](#)). Adoption was particularly strong among general-purpose open-ended funds, with 66% of assets under management equipped with a redemption gate and 45% with swing pricing at the end of 2023 (compared with 17% and 23% respectively a year earlier). Moreover, all open-ended retail funds investing in real estate assets (*Organismes de Placement Collectif en Immobilier* or OPCIs) or in unlisted assets (*Evergreen Fonds Commun de Placement à Risque* or FCPRs) now have redemption gates.

Chart 2: Evolution in the adoption rate of redemption gates for general purpose open-ended funds



Sources: AMF (BIO database, prospectus database, LMT detection tool, funds domiciled in France).

The revision of the European investment fund directives (Directive (EU) 2024/927 of the European Parliament and of the Council, which amends the 2009 Directive on Undertakings for Collective Investment in Transferable Securities (UCITS) and the 2011 Directive on Alternative Investment Fund Managers (AIFM)), which will come into force on 16 April 2026, includes three measures to increase LMT use by EU investment funds:

- i) harmonisation of LMTs;
- ii) requirement for all open-ended funds to adopt at least two LMTs (at least one for money market funds);
- iii) drafting of guidelines and technical standards by the European Securities and Markets Authority or ESMA (currently being finalised).

The widespread and compulsory adoption of LMTs should ensure shareholders are treated more fairly and increase financial system resilience, while also removing the stigma associated

with these tools. Nonetheless, the system's effectiveness will hinge not just on whether funds actually use LMTs, but also on how well they are calibrated. If the activation thresholds are too high or other parameters too weak, they could become ineffective. Back-office actors also need to be mobilised to ensure the tools can be operationalised on a broad scale during periods of stress. In practice, centralisers, custodians and securities depositories currently need to carry out manual procedures to activate certain tools and are thus developing IT tools to reduce processing times.