

Fund Liquidity Risk Management

Of particular interest to: Authorised Fund Managers (AFMs), investment managers of such funds, and all AIFMs.

In Brief

In December 2025, the FCA released consultation paper CP25/38 which focused on improving the liquidity risk management of open-ended funds. The changes that the FCA has put forward specifically target AFMs for their UCITS schemes and non-UCITS retail schemes (NURS). The consultation paper also announces AIFMD reforms scheduled for 2026.

Summary

Following recent revised recommendations that were published by the International Organization for Securities Commissions (IOSCO) for liquidity risk management for collective investment schemes, the FCA does not believe that fundamental changes are needed to the existing framework. However, it is felt that the existing framework can be improved to reflect the role that liquidity risk management plays in open-ended fund management. The proposals in the consultation paper apply to:

- AFMs for their UCITS schemes and NURS
- Depositaries of authorised funds
- Investment platforms and other fund distributors
- MiFID investment managers, where the AFM has delegated the portfolio management function of a UCITS scheme or NURS to them

The consultation paper focuses on the use of anti-dilution tools, the enhancement of existing risk management procedures by AFMs, strengthening the rules for stress testing of UCITS schemes and the requirement of AFMs to consider conflicts of interest between investors exiting and those wanting to remain in the market.

The proposals include:

- Amending the definition of dilution so that it refers to an authorised fund
- Introduction of new guidance annexes to the COLL sourcebook that cover key components of an effective liquidity risk management system
- Requiring AFM's to have explicit policies that target dilution and provide appropriate calibration for its anti-dilution tools, and that these policies must be applied in an appropriate and timely manner
- Requiring AFM's of UCITS schemes and NURS to conduct annual reviews for each fund documenting how decisions to apply its anti-dilution mechanisms ensured fair treatment to all consumers
- Updating ESMA guidelines on liquidity stress testing and adopting them into the Handbook
- Requiring AFMs to explicitly consider potential conflicts of interest between remaining and redeeming investors

2026 AIFMD Review consultation

The consultation paper confirms plans in 2026 to consult on AIFMD reforms, including updating liquidity rules for AIFs. The FCA states that the current framework for AIFs aligns well with IOSCO recommendations, therefore they expect to propose only relatively small changes. The FCA also plans to 'introduce a baseline of liquidity management rules' for small AIFMs who are not currently subject to any

rules on how they manage fund liquidity. Such rules will include proposals that the liquidity of a fund's portfolio and its redemption policy are consistent.

Next Steps

The consultation period ends 23rd February 2026.

Useful Links

- [ESMA Guidelines: Liquidity Stress Testing in UCITS and AIFs](#)
- [IOSCO Revised Recommendations for Liquidity Risk Management for CIS](#)
- [FCA Consultation Paper CP25/38: Enhancing Fund Liquidity Risk Management](#)

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