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### Enhancing fund liquidity risk management

We, the Association of Real Estate Funds<sup>1</sup> (AREF), welcome the opportunity to contribute to the FCA's consultation on enhancing fund liquidity risk management. As we represent real estate funds and direct property is not an eligible investment asset for UCITS we are responding in respect of non-UCITS retail schemes (NURS). We consent to our name being published as a respondent to the Consultation Paper.

We are pleased that the FCA expects AFMs to remain ultimately responsible for the management of their funds. A 'one-size fits all' approach is not appropriate in relation to anti-dilution and liquidity management tools. Choosing and applying these tools should be tailored to a fund's specific circumstances. We agree that a more prescriptive approach could reduce the attractiveness of the UK asset management sector.

Real estate has some unique features, particularly arising from the high transaction costs of buying assets as a result of real estate transaction taxes, for example Stamp Duty Land Tax in the UK. A considerable amount of work has been undertaken by AREF, with the European Association for Investors in Non-Listed Real Estate Vehicles (INREV), in respect of anti-dilution pricing for real estate funds. The associations undertook quantitative research on the effectiveness of the two most common pricing policies, 'capitalisation and amortisation' and 'dual pricing'. This concluded that both of these commonly used pricing models are effective in minimising investor dilution but did not produce identical outcomes for investors. Further research on operational issues and governance surrounding institutional open end vehicle pricing was undertaken. Following this, members were then consulted on practical recommendations that may be employed to make more informed decisions on the selection and effectiveness of pricing models. AREF used the output from this to update its own [Open End Vehicle Pricing Guidelines](#).

The IOSCO's final report on 'Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes'<sup>2</sup> has been cited by the FCA throughout the consultation paper. Therefore, we would like to share AREF's response<sup>3</sup> to the consultation undertaken by IOSCO prior to publishing this report.

<sup>1</sup> The Association of Real Estate Funds represents the UK real estate funds industry and has around 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

<sup>2</sup> [Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes – Final Report May 2025](#)

<sup>3</sup>



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As acknowledged in Chapter 6 of the consultation, the FCA consulted on proposals in 2020 to require NURS property funds to have mandatory notice periods, but these rules were never finalised. We are pleased to see that the FCA will be reconsulting later this year on proposals to require some authorised AIFs invested in inherently illiquid assets, such as real estate, to have minimum notice periods. We would like to engage with the FCA prior to reconsulting, as there are still some challenges that need addressing. We particularly welcome the intention to give AIFMs of unauthorised AIFs more flexibility to choose how to manage the liquidity offered to investors. As we have noted in our response below, we do not believe that fixed notice periods are the only or indeed most appropriate tool for managing liquidity mismatch. We believe that redemption deferrals are an equally valid tool. Also, as we have previously communicated, any change proposed needs to occur after the appropriate operational platform support is in place.

If you would like to discuss any aspect of our response, please contact Jacqui Bungay ([jbungay@aref.org.uk](mailto:jbungay@aref.org.uk)), Head of Policy at AREF.

Yours sincerely



Paul Richards

CEO, The Association of Real Estate Funds

## Response to consultation questions

### Chapter 2 – The wider context

#### Environmental, social & governance considerations

##### **Question 1: Do you have any comments on the ESG implications of our proposals?**

No comment

#### Equality and diversity considerations

##### **Question 2: Do you have any comments on the equality and diversity implications of our proposals?**

No comment

### Chapter 3 – Promoting effective use of anti-dilution tools

#### Availability of anti-dilution tools

##### **Question 3: Do you agree that we should require all AFMs of UCITS schemes and NURS to have anti-dilution tools available for use, if they do not already do so?**

We agree that AIFM's should have anti-dilution tools and recognise that the FCA is following the principles-based approach set out by the International Organization of Securities Commissions (IOSCO), the global regulator of regulators, along with the Financial Stability Board (FSB). We believe that principles-based approach proposed under this consultation contrasts with the rules-based approach adopted for Long Term Asset Funds (LTAFs) and proposed for funds investing in inherently illiquid assets (FIAs), in particular the requirement for fixed notice periods. We understand from section 6 of the consultation that under the planned 2026 AIFMD review consultation, it will be proposed to introduce fixed notice periods for FIAs to bring them in line with the current treatment of LTAFs. We

further understand that liquidity management and anti-dilution measures for LTAFs and QISs will be addressed in the AIFMD review.

We do not believe that fixed notice periods are the only or indeed most appropriate tool for managing liquidity mismatch. We believe that redemption deferrals are an equally valid tool and are preferable to full suspensions. We believe that deferrals offer advantages also over fixed notice periods that may make them more attractive to many investors. We believe that deferrals provide the following advantages in managing liquidity:

- Investors can continue to submit redemption requests;
- The fund can continue to calculate a daily NAV and accept subscriptions;
- Incoming investors can be matched with outgoing investors so investors can be redeemed sooner than if there was a full suspension and often sooner than under a fixed notice period. This reduces the increased market risk for redeeming investor as there is greater certainty as to the net asset value (NAV) at which an investor may be redeemed. In a period of net subscriptions, redeeming investors will be redeemed immediately.

Deferrals are the tool most widely used in funds for institutional investors and their use for funds investing in real estate. This is explicitly mentioned in IOSCO's Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes, published in May 2025:

*"There is another quantity-based LMT known as "deferrals of redemptions " which achieves similar outcomes to investors as extension of notice periods. This tool allows an OEF to defer a redemption to a later transaction/NAV date and meet redemptions using a later NAV. It may be appropriate for OEFs holding illiquid assets, such as real estate, where meeting redemption requests promptly without selling assets at unfavourable prices is challenging and the deferral provides the necessary time to sell underlying assets."*

We believe that deferral of redemptions should be considered as an alternative to notice periods for funds investing in illiquid assets and would be happy to discuss this further with the FCA ahead of the AIFMD review. We note that the guidance proposed in COLL 6 Annex 4.5.1 specifically recognises the validity of deferred redemption as a liquidity management tool. Please see our response to question 21.

As with the introduction of notice periods, a deferral approach requires the platform architecture to be able to accommodate it. In addition, we would once again emphasise the need for any notice period on FIIA's to only be introduced once the relevant operational architecture through platforms is in place. If not, consumer choice will be further limited by the forced closure of additional funds.

LTAFs, QISs and FIIAs cover the authorised funds investing predominantly in direct real estate. However, since the announcement of the planned introduction of notice periods, most of funds that would be regarded as FIIAs have either been wound up or converted to a hybrid model. The majority of investments in these hybrid funds will not be in direct property; they tend to be in listed REIT shares, typically in a global REIT index. This means customer choice has already become very restricted.

As a result of the dramatic decline in the number of direct property funds, there are now insufficient for this to be maintained as one of the 56 Investment Association (IA) investment sectors. Following a recent consultation, the IA Sectors Committee decided to proceed with a proposal to redefine the real estate fund sectors, which will be named the Direct and Hybrid Property sector and the Listed Property sector. The new sectors will be introduced on 1st June 2026. The Direct and Hybrid Property sector will enable investors to locate both traditional direct property funds and hybrid funds that invest in a mixture of direct and listed property. Funds must hold at least 70% of their assets in direct property or in a mixture of direct property and listed property securities. Funds are also expected to invest an average of at least 35% directly in property over 5-year rolling periods.

We believe that it is important that the rules for FIIAs do not result in their elimination and that the rules as set out in this consultation are viable for hybrid funds. The key concern relates to the vertical slicing provisions. We address this in our answer to Question 7.

**Question 4. Do you agree that the three anti-dilution tools available to an AFM should be dual-pricing, a dilution adjustment or a dilution levy? If not, what other tools do you think should be available and why?**

No comment

**Question 5: As a possible alternative, do you believe that having the ability to close a fund to new investors only ('soft close') would enhance the fund's ability to avoid dilution?**

No comment

**Question 6: Do you agree that the position for LTAFs and QIS should be considered separately as part of the 2026 AIFMD review CP?**

We agree that the position for LTAFs and QIS should be considered separately as part of the 2026 AIFMD review consultation. As we have mentioned in our response to Question 3, as part of this review, we would like the FCA to consider deferrals of redemptions as an alternative to fixed notice periods for both FIAs and LTAFs.

#### Calibrating anti-dilution tools

**Question 7: Do you agree with the factors included in the proposed guidance regarding calibration of anti-dilution tools, for example that an AFM should take into account both explicit and implicit costs when calibrating its anti-dilution tools?**

We agree that the purpose of anti-dilution pricing is to ensure redeeming and subscribing investors pay the explicit and implicit costs of redemptions and subscriptions, including any significant market impact of asset sales and purchases to meet those redemptions and subscriptions.

The proposed guidance for the appropriate calibration of anti-dilution tools requires the AFM to assume that it meets a redemption request by selling a vertical slice of the portfolio. We agree with this practice, but it should be noted in the guidance that this is theoretical for real estate funds that hold a significant proportion of their portfolio in physical property. These real estate funds have to meet redemptions by selling whole buildings. We are concerned that the proposals on vertical slicing over-simplify a complex point. As we outlined in our response to Question 3, many of the property funds that would be regarded as FIAs have converted to a hybrid model in which direct property is a smaller proportion of the assets than that invested in listed REITs. The holding of liquid investments is itself a liquidity management tool. Although the balance between liquid and illiquid assets within the portfolio over time, in the short-term liquidity will be managed through the liquid element. Liquidity management tools will be considered across the portfolio as a whole.

#### Review mechanism

**Question 8: Do you agree that the AFM of a UCITS scheme and a NURS should be required to annually review the effectiveness of its anti-dilution policies to ensure all unitholders have been treated fairly?**

We have no issues with to the proposal to require AFMs of NURS to review the effectiveness of their funds anti-dilution policy at least annually.

### Dual-priced funds (3.39)

**Question 9: Do you agree with our proposed approach for dual-priced funds? Do you anticipate there may be any other implications of our proposals beyond those explained above?**

We have no objection to the proposals for prospectus disclosure, record keeping, and informing unitholders of significant changes for dual price funds as set out in the consultation paper.

### Effect on other market participants

**Question 10: Do you have any other comments on our proposals relating to anti-dilution tools?**

We have no further comments on the proposals relating to anti-dilution tools.

## Chapter 4 – UCITS schemes and NURS liquidity risk management

### Removing the 'listed asset presumption'

**Question 11: Do you agree with removing the 'listed asset presumption' for transferable securities to avoid an AFM placing over-reliance on the fact that a transferable security is admitted to trading when assessing its eligibility?**

No comment

**Question 12: Do you agree with the factors that an AFM should consider when assessing the liquidity risk of a transferable security?**

No comment

**Question 13: Do you agree the 'listed asset presumption' should be retained for an approved money-market instrument?**

No comment.

### Removal of the derogation from the eligible market test

**Question 14: Do you agree with removing the derogation from the eligible market test for recently issued securities?**

No comment

**Question 15: Do you agree with the consequential change proposed to the rules on the approved derivatives in which a UCITS scheme and a NURS can invest?**

No comment

**Question 16: Do you agree that this proposal should have a limited impact on any fund's specific investment strategies? For example, that it should not limit a fund's ability to invest in IPOs? If not, please provide any data you can to support this.**

No comment

#### Eligible market requirements

**Question 17: Do you agree with our proposed guidance relating to eligible markets?**

No comment

#### Treating all unitholders equitably

**Question 18: Do you agree our proposed rule adequately captures the risks of conflicts of interest between those unitholders who want to redeem their units and those who want to remain invested?**

No comment

#### Updates to the ESMA liquidity stress testing guidelines

**Question 19: Do you agree with our proposed approach to bring the ESMA liquidity stress test guidelines into the Handbook?**

No comment

**Question 20: Are there any other areas where you consider that updates or revisions to the guidelines would be appropriate? Please explain your rationale.**

No comment

#### Guidance on good liquidity risk management practices

**Question 21: Do you agree that the new guidance proposed in COLL 6 Annex 4 adequately captures the key components of an effective liquidity risk management system?**

We note that the guidance favours fixed notice periods for funds with a significant exposure to illiquid assets, including real estate. As outlined above, we believe that fixed notice periods generally provide a worse outcome for investors than deferred redemptions.

In view of the specific definition of FIAs already introduced, more subjective and somewhat contradictory guidance is unhelpful. We prefer a principles-based approach in line with IOSCO rather than specific definitions. A "mix and match" approach which is implied here, would be confusing.

#### Chapter 5 – Delegation of the portfolio management function

**Question 22: Do you agree with our decision not to propose any new rules or guidance in relation to host AFM arrangements?**

No comment