Recommendation 3: Consistency of OEF asset liquidity and redemption terms

Q1. Are the identified common components of OEF's structure including notice periods, lock-up periods, settlement periods and redemption caps accurately described? Are there any relevant additional considerations when setting the notice periods, lock-up periods, settlement periods or redemption caps?

General comments:

AFG continues to disagree with the bucketing method as proposed. Indeed, regarding the liquidity risk management, the current European regulatory framework is comprehensive, robust and effective since many years and has been recently completed with the revised AIFM and UCITS directives including the mandatory deployment of two LMTs for every OEF.

Moreover, liquidity is hardly compliant with a bucketing approach that may bring aboard rigidities without improving the already very effective European set-up.

If this recommendation were to be applied in the European context, **it would not add value to the** current regulatory framework which **clearly** differentiates MMF (cat 1) tackled **by a** European regulation (MMFR) **from** AIFs invested in low liquid assets (**Private Equity/Real Estate** typically) (Cat 3) and all other European OEFs (Cat 2).

Regarding open-ended ETFs, AFG members believe that they should be included into the field of the revised liquidity Recommendations and the Proposed Implementation Guidance. In Europe, with the UCITS directive and in the U.S. under the Investment Company Act of 1940, open-end ETFs are already subject to liquidity risk management requirements. Their exclusion from IOSCO recommendations and guidance may potentially lead to a regulatory void at a global level.

However, some amendments should be considered due to the specific nature of the ETFs. They should consider the important role of Authorized Participant and market makers who act as liquidity providers, on a contractually basis. The exemption or a very limited and pragmatic application of the recommendation 3 (liquidity bucketing) should also be considered due to its limited added value and the tracking error constraints. These adaptations are considered as essential.

AFG response

AFG largely agrees with the description of these components, but regarding notice period the proposed description may be considered as too strict. As matter of fact, liquidity assets of the fund may evolve positively during some period. And the length of the notice period may be adjusted accordingly (i.e. reduced). Concretely the length disclosed in the fund documentation could be considered as a maximum and potentially subject to reduction during the life cycle of the fund.

Regarding Additional Consideration of Liabilities, once again we consider the wording too strict for being set at global level, as there is not always an exclusive relation in practice between fund portfolio liquidity and redemption terms, as other parameters may play a role (e.g. type of investors, LMT selected, etc.).

Recommendation 6: Considering and implementing a broad set of anti-dilution LMTs, quantity-based LMTs and other liquidity management measures

Q2. Are there any other key considerations related to the availability and use of anti-dilution LMTs, quantity-based LMTs and other liquidity management measures under normal and stressed market conditions?

AFG response

On Recommendation 6, we largely agree with the proposed drafting. However, regarding the sentence "exclusive reliance on quantity-based LMTs may result in unintended consequences" (p. 27), while we agree in the case of a retail fund, it should not apply automatically in case of funds commercially dedicated to a single investor or a small group of investors, for instance, as the given investor may wish another design. While that retail approach was probably the implicit target of IOSCO, we consider it should be clarified explicitly.

AFG would like to remind that the fund manager has the primary responsibility for the selection, the calibration and the activation of the Liquidity Management Tool. Indeed, the manager benefits from proximity to the markets in which it invests and the unitholders which are its clients. It is best placed to make the right choices having in mind the best interest of its investors even if some decision could result in a diminution of their liquidity.

Q3. Are there any other LMTs or liquidity management measures commonly used by OEF managers?

AFG response

"Regarding notice period, in France, fund managers benefit from more flexible characteristics. Typically, for real estate funds, multiple lengths of notice period are proposed. Each extension of period of time is associated with a level or redemptions fee. Here is an example for one single share class:

For a 1-week extended notice period, the redemption fees are set to 9%.

For 3 months extended notice period, the redemption fees are set to 6%.

For 6 months extended notice period, the redemption fees are set to 3%.

For 12 months extended notice period, the redemption fees are set to 0%.

Another example is the possibility to adapt the extension of notice period to the size of the redemption order. For example, an extension is applied for orders amount that exceed a level expressed in euro (100 000 € for example).

These examples of extension are automatically applied when the corresponding criteria is filled and are fully disclosed in the prospectus of the fund. The rationale is to incentive the investors to place its redemption order sufficiently in advance. We call them "incentive notice period" as opposed to "mandatory notice period". Usually, incentive notice period is reserved to the share classes dedicated to institutional investors. "

Recommendation 13: Effectively maintaining the liquidity risk management process with adequate and appropriate governance

Q4. Have the proposed changes covered all the essential elements regarding liquidity risk management governance arrangements in relation to the use of liquidity management tools and other liquidity management measures? Are they proportionate to the differing size and complexity of responsible entities' fund ranges?

AFG response

AFG supports the proposed changes but would like to precise that such framework should be commensurate to the specifications of the CIS (e.g., fund size, complexity of strategies, types of asset class, investors profile, ...).

In the EU, Depositaries' duties already include a comprehensive and regular review of procedures and processes of the fund's manager regarding risk management in general and liquidity risk management in particular. As a matter of fact, many existing layers of control already exists: depositary, external auditor but also regulator (through regular "spot" controls).

Q5. Please describe any material factors of the liquidity risk management governance and oversight arrangements which have not been included.

AFG response

AFG would like to remind that the assessment of the liquidity of the assets holds by the CIS may potentially involve a degree of uncertainty and may rapidly change. It is important to recognize that despite all the measures taken to reach a sound and efficient liquidity risk management governance and oversight, no risk can totally be eliminated. IOSCO must recognize the level of difficulty and the fact that fund managers are working on a best effort basis.

Recommendation 17: Disclosures to investors regarding the use of anti-dilution LMTs, quantity-based LMTs and other liquidity management measures

Q6. What information can (and should) be disclosed to investors or the public, and within what timeframe should this information be disclosed to enhance transparency

when responsible entities activate quantity-based LMTs or other liquidity management measures?

AFG response

AFG is of the view that the event of activation of a quantity-based LMT must be clearly and timely disclosed to the investors and the public if this activation is the result of a management decision. This disclosure must be cautiously settled in order to avoid giving too precise parameters (such as the effective threshold of gates) which could potentially lead to arbitrage by sophisticated investors.

Conversely systematic tools, such as ADT, should not be matter of any element of disclosure regarding their (day to day) use in order to avoid having investors gaming the mechanism ("reverse engineering") and thereby reduce the effectiveness of the anti-dilution LMTs.

Regarding the extension of the notice period, the corresponding disclosure should provide with the number of additional days applied according to the description provided in the fund documentation.

Other Proposed Revised Liquidity Recommendations

Q7. Do you have any comments on any of the other Proposed Revised Liquidity Recommendations put forth in this document?

AFG response

AFG would like to emphasize that the liquidity level on the assets side of the fund should be considered at the portfolio level and at instrument level. The assets of a fund may include securities or instruments which are less liquid, provided this does not compromise at global level its capacity to comply with its regulatory obligations, regarding unit redemptions and other financial commitments.