Key messages from AFG members

AFG would like to emphasize the following key messages:

- **AFG warmly welcomes this consultation on the guidelines on the selection and calibration of LMT. This initiative will bring Europe at the forefront regarding the liquidity risk management. These Guidelines will help to develop a common know how for the European fund industry and potentially become a worldwide reference standard.**

- **These guidelines will provide a valuable help to the fund manager which has the primary responsibility for the selection, the calibration and the activation of the Liquidity Management Tool. In addition to these guidelines, 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.**

- **Liquidity risk management is not relying only on the liquidity management tools. The liquidity risks are managed in a more global framework which includes, for instance, all the due diligences which take place before the investments (pre-trade alert system, definition of a buy list of eligible instruments, minimum share of liquidity in the funds, etc.). This permanent liquidity risk oversight is more detailed in the AFG practical guide for compliance with the liquidity risk management system updated in 2022 (link). From a regulatory perspective, these RTS and guidelines will complement existing pieces of existing regulation such as ESMA guidelines on liquidity stress tests and Commission Directive 2010/43.**

General Principles

Q1. Do you agree with the list of elements included under paragraph 17 of Section 6.5.1 of the draft guidelines that the manager should consider in the selection of LMTs? Are there any other elements that should be considered?

AFG response

AFG agrees with the proposed list.

Q2. Should the distribution policy of the fund be considered in the selection of the LMTs? What are the current practices in relation to the application of anti-dilution levies by third party distributors (e.g.: whether the third party corrects the price by adding the anti-dilution levy to the fund NAV)?

AFG response

The policy distribution should not necessarily be considered in the selection of the LMT. The type of investors and the granularity of the liabilities are taken into account in the frame of the liquidity risk management and possibly on the choice of LMT.

When the distribution is delegated to third party distributors, they usually rely on service providers. These services providers appointed by the management company, are in charge of the processing of the orders through the transmission channel, the centralization and orders book constitution on every fund NAV. The addition of the anti-dilution level to the fund NAV is operated by the service providers and not by the third-party distributor which is located at the end of the distribution channel.

The operational capacity of these service providers to cope with some LMT can have an impact of the selection. This is part of the operational risk assessment of the management company. Typically, when the services provider is not able to manage a specific LMT (like dual pricing in France or ADL by some institutional investors), they can simply not be selected by the fund manager.

Q3. Do you agree that among the two minimum LMTs managers should consider the merit of selecting at least one quantitative LMT and at least one ADT, in light of the investment strategy, redemption policy and liquidity profile of the fund?

AFG response

AFG do not believe that there is merit of selecting one quantitative-based LMT and one ADT for many reasons.

In many cases, anti-dilution tools are not well suited. Typically, most of the ADT (swing pricing, dual pricing, ADL) can be calibrated by estimating liquidity cost with the bid-ask spreads. These ADT are less adapted to Real Estate (RE) funds and/or Private Equity (PE) funds where no bis-ask spreads are available. Furthermore, ADT may not be considered useful when the fund is invested in very liquid asset classes such as large cap equity. They also may be difficult to implement in the case of funds of funds, even if they are used by the target funds because the actual swing factors of the latter are not disclosed. It is impossible to combine the target fund swing factors to compute a global swing factor for the FoF.

ADT implementation is heavy and expensive. It usually results in a raise of the operational risks due to the liquidity costs assessment. A wrong assessment can lead to a NAV error. And a significant NAV calculation error can potentially lead to a loss remediation.

In conclusion AFG acknowledges the merits of ADT but these tools must be cautiously selected in the situation where they are well suited to the funds according the criteria listed under Question #1

The link between the LMT category and the market conditions (normal vs stressed) is not as obvious as in the consultation paper. ADT can be well suited even during stressed market like swing pricing for instance in high yield or convertible bond markets.

Conversely activation of gates is needed orders during normal market conditions when a fund has to cope with unexpected massive redemption.

AFG recalls that the level 1 Directives do not give specific guidance regarding the selection among these two categories and this leeway should be maintained at the levels 2 and 3.

In conclusion, a balance between ADT and quantitative tools could be seen as appropriate but it is not prudent to draw general rules by putting LMT in specific categories. Every case is particular and that is one of the reasons why AFG emphases the fact the primary responsibility has to remain on the hands of manager.

Q4. Do you see merit in developing further specific guidance on the depositaries' duties, including on verification procedures, with regards to LMTs?

AFG response

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 key part this risk management framework, LMT management is naturally already included in the depositaries' procedure.

Governance principles

Q5. Do you agree with the list of elements included under paragraph 28 of Section 6.5.2 of the draft guidelines to be included in the LMT policy? Are there any other elements that, in your view, should be included in the LMT policy?

AFG response

The list of elements should be adapted to the nature of the LMT and would obviously not be the same depending on whether it is about gates or swing pricing. Fund managers should select items from that list which are pertinent to the selected tool.

Q6. In your view, what are the elements of the LMT policy that should be disclosed to investors and what are the ones that should not be disclosed? Please provide reasons for your answer.

AFG response

The LMT policy is part of the internal governance elements of the fund manager. It will primarily document the procedure linked to the use of LMT and will be subject to the depositaries verification. However, there are merits to disclose some element to investors. This disclosure enhanced the transparency of the liquidity risk policy of the manager. It helps investors to better understand its potential impact on the liquidity of the funds and it reduces the risks of mis selling. The disclosure should be done with a view to be understandable, descriptive and qualitative by using simple words.

In France the AMF doctrine 2017-05 gives details on the elements that must be disclosed to investors. This disclosure must be cautiously settled in order to avoid giving too precise parameters which could potentially lead to arbitrage by sophisticated investors. Too much disclosed details could help to anticipate LMT activation by "reverse engineering". For instance, disclosure of a potential cap on swing factor should not be disclosed. A fortiori parameters like activation thresholds should not be given on demand by the fund manager knowing that investors must be equally treated.

To conclude AFG is of the view that a "need to know" principle should be adopted with the intention of bringing balance between understandable disclosure and arbitrage possibility.

Quantitative-based LMTs

SUSPENSION OF SUBSCRIPTIONS, REPURCHASES AND REDEMPTIONS

Q7. Do you agree with the above definition of "exceptional circumstances"? Can you provide examples of additional exceptional circumstances, not included under paragraph 30 of Section 6.5.3.1 of the draft guidelines, that would require the manager

to consider the activation of suspension of subscriptions, repurchases and redemptions, having regard to the interests of the fund's investors?

AFG response

AFG strongly disagree with any attempt to provide with a definition of "exceptional circumstances". And providing a list of exceptional circumstances is a never-ending exercise.

Usually, NCA are consulted by the fund manager before having taken a decision. A dialogue is initiated where the NCA can assess the rationales which led the fund manager to contemplate such heavy decision.

Moreover, the framework governance of activation has been actualized by the new release of UCITS/AIFMD.

Q8. Do you agree with the elements of the LMT plan included under paragraph 32 of Section 6.5.3.1 of the draft guidelines to be included in the LMT plan? Is there any other element that should be considered?

AFG response

AFG agree with the necessity to activate suspensions of subscriptions, repurchases and redemptions only on a temporary basis. The impacts of the activation of this LMT are particularly important for many different reasons: financial, commercial, operational, and reputational reasons.

Consequently, the managers usually take all necessary measures to limit the period over which the fund is suspended. An LMT plan is a convenient way to formalize what the managers must undertake to deal with this crisis situation.

The proposed elements of the LMT are numerous with a great level of detail. However, suspensions activations traditionally come in a crisis context with a great level of uncertainty.

Some of the proposed element seems difficult to assess in a precise manner. (point d or e)

Some elements must not be disclosed publicly. Typically, the point f should not provide detailed information of the remediation plan and the expected positions to be sold on the market. Investors interest have to be protected from arbitragers who could exploit some of these disclosed elements.

While acknowledge the importance of an LMT plan, AFG propose to adapt its content and limit it to the relevant elements only, on a case-by-case basis. This plan should be build according to a risk based principle with two main objectives:

- Streamline and strengthen the dialogue with the NCA which is a key element during this stressed period
- Preserve the investors interests during a period over which the funds could potentially show some signs of vulnerability.

Q9. Do you agree with the above list of elements to calibrate the suspensions of subscriptions, repurchases and redemptions? Is there any other element that should be considered?

AFG response

AFG globally agree with this list of elements but believe that the expression “activation threshold” is misleading. The calibration cannot be achieved with the fixing of a single threshold.

Instead of a quantitative criterion which mechanically “prompted “the manager, it is whether more a bundle of external events, market conditions along with expert judgements which can participate to the managers decision to suspend.

REDEMPTION GATES

Q10. Do you agree with the proposed criteria for the selection of redemption gates? Is there any other criteria that should be considered?

AFG response

AFG agrees with the proposed criteria. They are general enough to be considered by any type of funds. And AFG believes that these criteria must remain general and there is no need to mention specifically some type of funds. Accordingly, the parenthesis where PERE funds are mentioned (para a. iii) should be removed.

Redemption gates is not useful for dedicated funds where its function would be similar to suspension of redemption, subscription as only applied to one client.

Q11. What methodology should be used and which elements should be taken into account when setting the activation threshold of redemption gates?

AFG response

Redemption gates offers a more flexible way to restrict the redemption compared to the suspension of subscriptions, repurchases and redemptions only used in exceptional circumstances. That being said, it's more appropriate to leave the judgement to asset manager if there's need to activate redemption, without stated threshold nor min or max periods of application.

Q12. Do you agree that the use of redemption gates should not be restricted in terms of the maximum period over which they can be used? Do you think that any

differentiation should be made for funds marketed to retail investors? Please provide concrete cases and examples in your response.

> **AFG response**
>
> In France, redemption gates can only be applied for a limited number of NAV. This limit depends on the NAV calculation frequency. AFG believes that it is an important characteristic because it provides to the investors with a time horizon. With a maximum period disclosed in the prospectus, it enhances the visibility and transparency for the investors.
>
> This maximum period must not be defined by the regulation, but it must be instead calibrated by the fund manager with consideration given to parameters such as the NAV calculation frequency, and the liquidity profile of the funds. It should ensure that investors have a clear insight of a reasonable time horizon to have their units or shares totally redeemed.
>
> If this maximum period can obviously not be respected, (due to the deterioration of market condition for example), the liquidation of the funds must be considered.
>
> However this maximum period is not suited for AIFs mainly invested in illiquid assets like Private Equity funds. For this type of funds where redemption gates are permanently used a maximum period does not make sense.

Q13. What is the methodology that managers should use to calibrate the activation threshold of redemption gates to ensure that the calibration is effective so that the gate can be activated when it is needed? Do you think that activation thresholds should be calibrated based on historical redemption requests and the results of LSTs?

Q14. In order to ensure more harmonisation on the use of redemption gates, a fixed minimum activation threshold, above which managers could have the option to activate the redemption gate, could be recommended. Do you think that a fixed minimum threshold would be appropriate, or do you think that this choice should be left to the manager?

> **AFG response**
>
> Usually, a fixed minimum threshold is calibrated and disclosed in the fund documentation. This is compliant with the current French regulation and provide the unit holders with useful information. However, AFG is of the view that the choice should be left to the manager.

Q15. If you think that a fixed minimum threshold should be recommended, do you agree that for daily dealing funds (except ETFs and MMFs) it should be set as follows:

a) at 5% for daily net redemptions; and

b) at 10% for cumulative net redemptions received during a week?

AFG response

If a fixed rate is recommended it should be set by the fund manager. AFG members would like to benefit form the ability to express it like the b) option (i.e. comparison with the cumulative net redemptions).

EXTENSION OF NOTICE PERIODS

Q16. Do you agree with the proposed criteria for the selection of the extension of notice period? Are there any other criteria that should be considered?

AFG response

AFG members believes that the extension notice period is mostly suited for illiquid assets. When the portfolio is invested (partially or totally) in liquid assets, the fund manager usually tends to buy or sell the assets at the valuation point (i.e. close to the level used to compute the NAV). By doing so it will prevent the fund to bear a profit or a loss linked to the fact that the trading price is different from the valuation price.

Regarding illiquid asset, the extension of notice period provides an extended period of time to process the sell orders on the market. By putting illiquid asset on the market, the fund manager usually receives updated market data which improve the accuracy of the valuation process and prevent him to bear a discount usually applied in the context of a fire sale.

Q17. According to the revised AIFMD and UCITS Directive, the extension of notice periods means extending the period of notice that unit-holders or shareholders must give to fund managers, beyond *a minimum period which is appropriate to the fund*. In your view, for RE and PE funds: i) what would be an appropriate minimum notice period; and ii) would the extension of notice period be an appropriate LMT to select?

AFG response

AFG believes that several minimum notice period should coexist in the same funds. Some funds offer retail share classes and institutional share classes with different notice periods for retail and institutional investors. Institutional clients generally invest larger amounts and tend to redeem in significant amounts. They are also generally long-term investors and are able to support notice periods. In contrast, retail investors are very granular with generally more smoothed redemptions behaviours and are also less used to notice period before redemptions.

Liquidity is a moving concept, even in the same type of asset classes.

To conclude, there is no general rules. The calibration of the minimum notice period should be adapted on a case-by-case basis

AFG is of the view that specific asset classes (PERE funds for example) should not be mentioned in the guidelines in order to stay at a general level.

Q18. Do you think the length of the extension of notice periods should be proportionate to the length of the notice period of the fund? Do you think a standard/ maximum extended notice period should be set for UCITS?

AFG response

AFG believes that a proportional link can make sense and is understandable. However, there is no general rule, and such calibration must be done on a case by case basis.

For example, the proportion of illiquid asses in the portfolio of the funds has an obvious impact on this calibration.

Q19. Do you agree with the above criteria for the activation of the extension of notice period? Are there any other criteria that should be considered?

Q20. Do you have any comments on the guidance on the calibration of the extension of notice periods?

REDEMPTIONS IN KIND

the characteristics of redemptions in kind would include:

• Redemptions in kind allows funds to avoid the sale of sizable blocks of securities in response to redemption requests and avoid significant transaction costs and market price impact, and protect remaining investors.

• Redemptions in kind shall only be used to meet redemption requests from professional investors.

. If the fund is solely marketed to professional investors or if the investment policy of the fund is to replicate the composition of a certain stock or debt securities index and that fund is an ETF fund, fund managers are not required to transfer assets to professional investors on a pro rata basis of the assets held by the fund. The same type of transfer of assets (i.e pro rata share or not) shall apply to all redeeming investors.

Q21. Do you agree with the above criteria for the selection of redemptions in kind? Are there any other criteria that should be considered?

AFG response

One obvious criteria of selection is to make sure that professional investors are able to receive the assets when a redemption is kind is activated

Q22. Do you agree with the above criteria for the activation of redemptions in kind? Are there any other criteria that should be considered?

AFG response

AFG members agree about the need of an additional valuation made by a third-party auditor. However, they believe that it is not necessary when:

1. The fund manager gets a unanimous agreement of the shareholder
2. The asset received are the exact reflection of the value held by the investors in the funds

Q23. Do you think that redemptions in kind should only be activated on the NAV calculation dates?

Q24. What are the criteria to be followed by the managers for the selection of the assets to be redeemed in kind in order to ensure fair treatment of investors?

AFG response

If the fund manager does not respect the pro rata basis of the assets held by the fund, AFG believes that the selection can however be made by the fund manager only with the agreement of the remaining investor or with an independent third-party auditor.

Q25: How should redemptions in kind be calibrated?

Anti-Dilution Tools (ADT)

Q26: Do you agree that managers should consider the merit of avoiding the simultaneous activation of certain ADTs (e.g.: swing pricing and anti-dilution levies)? Please provide examples when illustrating your answer.

AFG response

The simultaneous activation of ADTs only occurs if these tools has been previously selected by the fund manager. AFG members believes that such combination does not have much sense in most cases.

However, AFG would like to provide ESMA with some examples where different ADT tools could be simultaneously selected and potentially activated but only in the context of funds with different share classes. Usually share classes are assigned to distributors and some of them (insurance company e.g.) are reluctant to manage anti-dilution levies (ADL) and prefer having swing pricing even if it has an impact on the fund performance. Other distributors are more comfortable with ADL.

Another import distinction is the reactivity of the intermediaries from an operational perspective. Swing pricing activation in linked to the NAV computation process and only the fund administrator is impacted. However, for ADL, many intermediaries are concerned: third party distributors, centralizing agent, custodian, transfer agent, ... In context of a fast-moving market where liquidation cost moves frequently, ADL is an heavier tool to manage.

Q27: Do you agree with the list of elements provided under paragraph 56 of Section 6.5.4 of the draft guidelines? Is there any other element that should be included in the estimated cost of liquidity?

AFG response

Regarding the list of elements proposed, AFG would like to put an emphasis on the implicit transaction costs and more specifically on the market impact. As highlighted in the IOSCO Final Report on Anti-Dilution Liquidity Management Tools, its assessment heavily depends on the prevailing market conditions which can change rapidly especially under exceptional circumstances. As a matter of fact, assessment parameters (back testing for example) are regularly updated but not in real time. Similar transactions cannot always be used because usually the positions in the investment portfolio are gradually established and are sold more suddenly.

Consequently, AFG insists on the fact that market impacts are particularly difficult to assess.

To quote the IOSCO Report (p 14) :

"Overall, IOSCO recognises that there could be a degree of uncertainty for the market impact estimated despite the best efforts made by responsible entities."

Having in mind that a wrong assessment could potentially lead to NAV error, NCA must recognizes the level of difficulty and the fact that fund managers are working on a best effort basis.

However enhanced assessment methodologies are currently under construction in many AFG members.

Q28: Do you have any other comments on the proposed general guidance on ADTs?

REDEMPTION FEE

Q29: Do you agree with the above criteria for the selection of redemption fees? Is there any other criteria that should be considered?

AFG response

AFG agree with the criteria but is of the view that specific asset classes (RE funds for example) should not be mentioned in the guidelines in order to keep the guideline general.

Q30: Do you have any views on how to set the activation thresholds for redemption fees

AFG response

Activation thresholds calibration depends on many parameters and must be set by the fund manager on a case-by-case basis.

Q31: Do you have any comments on the calibration of redemption fees?

AFG response

Adjustments should be possible according to change in some circumstances such as brokerage fees or tax conditions.

AFG agrees with paragraph 77 of the draft RTS :

“Redemption fees on the contrary are pre-determined fixed fee (regardless of the net flow of the fund), which can be increased under, for example, stressed market conditions (i.e. expressed as range). “

Redemption fees must cover the execution costs and investment portfolio adaptation and fund manager should have the possibility to calibrate on ad hoc basis for a specific event.

SWING PRICING

Q32: Do you agree with the above criteria for the selection of swing pricing? Is there any other criteria that should be considered?

AFG response

AFG agrees with the criteria of selection. Beyond the availability of a bid/ask spread, swing pricing is adapted when there is a difference between the entry and exit price of an asset (ex : discount factor applied to exit from a PE fund)

Swing pricing is meaningless when for very liquid instruments.

The tool is also meaningless for dedicated fund where the remaining investor and the exiting investor is the same. Dedicated fund is not always legally defined. But the investors protection principle should be respected and bring the rationale to any fund with one single investor.

Q33: Under which circumstances should the manager consider the activation of swing pricing?

AFG response

The activation of swing pricing is documented in the LMT policy and the manager must always keep track of it. The investors protection should always be considered, and the activation should be discussed and potentially decided as soon as a possible damage to the investors is likely to occur. This criterion holds for the selection as well.

We would like to suggest that, in a ramp up period of the fund, the asset manager could temporarily deactivate the swing pricing, even if the swing pricing is one of the two selected LMTs. In addition to this, it should be possible to amend the threshold, and not only the factors, since the total effect is a combination of the two. This ramp up period should be limited, and appropriate disclosure to investors should be in place.

Q34: Do you agree with the above principles that a manager should follow in order to recalibrate the swing factor? Is there any other criteria that should be considered?

AFG response

A maximum swing factor can only be indicative and not binding. If a member state decides suddenly to apply a tax on the financial transaction, it should be reflected in the swing factor even if the result is above the maximum disclosed in the fund documentation.

AFG puts an emphasis on this important point. A maximum can be misleading for the retail investors. It must not be understood as a protection for the shareholder. The disclosure of a maximum should not be mandatory. AFG proposes to insist on the notion of liquidity costs for the sake of transparency and pedagogy with indicative levels.

The recalibration of the swing factor must follow the pace of the change in the market conditions in order to protect efficiently the remaining investors. The governance framework (board agreement, official letter , web publication, ..) must not be too heavy and burdensome. In fast market conditions investors protection must be prioritized compared to the public disclosure. This another reason to push back the disclosure of a maximum swing factor. In emergency case, the disclosure obligation should be released.

Q35: Do you have any comments on the proposed guidance on the calibration of swing pricing?

AFG response

For the funds having a small size, their footprint on the market is limited. Accordingly, a great level of flexibility should be granted to these funds.

DUAL PRICING

the characteristics of dual pricing would include:

• The method that would consist of one of the two following calculation methods: - The fund has two NAVs with one NAV calculated using the ask prices of the assets and one NAV calculated using the bid prices of the assets. Subscribing investors shall subscribe on the basis of the NAV calculated according to the ask prices and redeeming investors shall redeem on the basis of the NAV calculated according to the bid prices.

- The NAV of the fund, under which assets are priced, is adjusted by a factor that reflects the cost of liquidity. Subscribing investors shall subscribe on the basis of the NAV to which is added the adjusted factor and redeeming investors shall redeem on the basis of the NAV from which the adjusted factor is deducted.

Q36: As dual pricing is a LMT which is not particularly used in most Member States, stakeholders' feedback on the selection, activation and calibration of this LMT is especially sought from those jurisdictions where this is used.

ANTI-DILUTION LEVY

the characteristics of an anti-dilution levy would include:

• The level of the levy is expressed as a percentage of the redemption/subscription order.

• There can be a pre-determined activation threshold.

• For a given dealing date, if the net difference between redemptions and subscriptions results in net subscriptions, an anti-dilution levy will be charged to subscribing investors. Conversely, for a given dealing date, if the net difference between redemptions and subscriptions results in net redemptions, an anti-dilution levy will be charged to redeeming investors.

• When activated, all redeeming (or subscribing) investors shall be charged an anti-dilution levy. The amount of the levy charged to investors may be the same for all subscribing/redeeming investors or tailored to the exact transaction costs of the redeeming/subscribing investors if the fund manager is in capacity to quantify them exactly per investor.

Q37: Do you agree with the above criteria for the selection of ADL? Is there any other criteria that should be considered?

AFG response

AFG believes that the criteria of selection should be more general: many different types of funds could potentially be appropriate for this tool. AFG shares the common goal to have a broad adoption of LMT and consequently the criteria of selection should not be too restrictive. This is the responsibility of the fund manager to decide what is the most appropriate tool.

Similarly, AFG believes that there are no merits to mention examples of asset class, for the same reasons.

Q38: Do you agree with the above criteria for the activation of ADL? Is there any other criteria that should be considered?

Q39: Do you agree that ADL should be calibrated based on the same factor used to calibrate swing factors?

AFG response
AFG agrees but would like to remind that some elements of ADL and swing factor are estimated on best effort basis. Administration fees related to the activation of ADL should also be included in the ADL.

Q40: Do you have any comments on the selection, activation and calibration of ADL?

AFG response
AFG members will consider the selection of this tool when the service providers will be able to implement this mechanism and to market it to the fund managers.

SIDE POCKETS

Q41: Do you agree with the above definition of "exceptional circumstances"? Can you provide examples of additional exceptional circumstances, not included under the above paragraph?

AFG response
As for the suspensions, AFG sees no merit to provide a definition of "exceptional circumstances". The fund manager is best placed to evaluate the situation in coordination with its local NCA. AFG shares the main goal of a broad selection and activation of LMT for the sake of investors protection and financial stability. The RTS and guidelines should not provide elements of restriction regarding the activation of LMT.

Q42: In your view, how the different types of side pockets (physical segregation vs. accounting segregation) should be calibrated and in which circumstances one should be chosen over the other? Please provide examples including whether the guidance should be different for UCITS and AIFs.

AFG response
AFG sees no example of different guidance between UCITS and AIF.

Q43: Do you have any comments on the calibration of side pockets?

AFG response
As for the suspensions, the conditions to activate side pockets are linked to exceptional circumstances and is not linked to a potential threshold. AFG is particularly in favor of the point d) with the possibility of a revision of the side pockets.

DISCLOSURE TO INVESTORS

Q44: Do you have any comment on the proposed guidance on disclosure to investors?

AFG response
AFG globally agrees with this guidance with the following comments: The level of disclosure should respect the general principle of "need to know". A too detailed disclosure could potentially lead to arbitrage opportunity. By dichotomy, it is possible to guess the historical activation thresholds of the swing pricing. Accordingly, a part of the paragraph 93 of Section 6.5.6 of the draft guidelines should be removed: ~~the potential cost implications of redeeming from, and subscribing to, an investment fund at different points in time~~ Historical LMT activations should be disclosed with limited details. The main goal of such disclosure is to facilitate the understanding of the investors on the use and consequences of the LMT. The precision should be adapted on case-by-case basis, according to the type of LMT. However, the fund manager should benefit from a leeway to add any additional information he might consider useful for the investors.

Q45: Do you agree that investors should be informed of the fact that the manager can activate selected and available LMTs and that this information should be included in the fund's rules and instruments of incorporation?

AFG response
This proposal makes sense for the quantitative LMT when their activation limits the liquidity of the fund, but, regarding the ADT tools, many of them are designed to be activated permanently.

Q46: Which parts of the LMT policy, if any, should be disclosed to investors?

AFG response

The LMT policy is an element of the internal governance of the liquidity risk management framework of the fund manager. It is too detailed and technical to be disclosed to investors.

Instead of a part of it, AFG proposes to provide an understandable description of each selected LMT.

APPLICATION OF THE GUIDELINES

Q47: In your view, how much time would managers need for adaptation before they apply the guidelines, in particular for existing funds?

AFG response

For AFG, it is essential that the fund manager selects the most appropriate LMT. It is a key factor to ensure the success of this initiative and foster a broad adoption of the LMT in Europe.

Accordingly, we must make sure that most of the LMT are available in the jurisdictions. If the application of the guidelines is required to early, there is a risk to see fund managers select LMT among a subset of the list. There will be a selection bias which can undermine the success of these guidelines.

AFG believes that a transition period of 2 or 3 years is necessary to let the fund manager select the two most appropriate LMT.

AFG believes also that institutional clients (for example: insurance company) should be consulted for their readiness level regarding the LMT listed by the UCITS and AIFM directives. Otherwise, a selection bias could also occur. Accordingly, European authorities like EIOPA should be consulted and should request a readiness level assessment in their respective sector.

Cost-Benefit Analysis (CBA)

Q48. Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the technical proposal develop by ESMA as regards the policy objecting of achieving a set of minimum standards by which all managers across Member States should select, activate and calibrate LMTs? Which other types of costs or benefits would you consider in that context?

AFG response

AFG would like to provide some examples of administrative costs billed by fund administrator to the fund managers:

- Gates: 500 € per annum and per share class
- Swing pricing: 3000 € per annum

For example, a manager which decides to select redemption gates and manages 40 funds with 5 share classes by fund will have an additional administrative cost of 100 k€ per annum.

Q49. Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the technical proposal develop by ESMA as regards the policy objecting of achieving a set of minimum standards by which all managers across Member States should provide disclosure to investors on the selection, activation and calibration of LMTs? Which other types of costs or benefits would you consider in that context?

Q50. Do you agree with the above-mentioned reasoning in relation to the possible costs and benefits of the technical proposal develop by ESMA as regards the policy objecting of achieving a set of minimum standards by which all managers across Member States arrange their governance for the selection, activation and calibration of LMTs? Which other types of costs or benefits would you consider in that context?

Q38. Do you think there is merit for the characteristics of redemption in kinds to differ between different investment strategies between AIFs and UCITS? If yes, how?