AMIC
The buy side voice of ICMA

ICMA AMIC Response to Consultation Report on Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration

Introductory Comments

The ICMA Asset Management and Investors Council ('AMIC') was established in March 2008 to represent the buy-side members of the ICMA membership. ICMA is one of the few trade associations with a European focus and both buy-side and sell-side representation. AMIC welcomes the opportunity to respond to the Consultation Report on Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration.

AMIC has a long-standing engagement with regulators on fund liquidity risk management. AMIC has responded to three FSB/IOSCO consultations touching on this topic among others, in 2014, 2015 and 2016. AMIC has also jointly with the European Fund and Asset Management Association (EFAMA) drafted a research report on liquidity risk management in investment funds and more recently a research report on leverage in investment funds.

General Comments

The IOSCO consultation report is a very helpful addition to the debate on liquidity risk management in investment funds. It comprehensively accounts for the common practices in many parts of the world on liquidity risk and how it is managed.

We are pleased that the AMIC/EFAMA paper on fund liquidity risk management is noted in the Consultation Report on Open-ended Fund Liquidity and Risk Management on numerous occasions. It was particularly important for AMIC and EFAMA to outline in detail the existing legislative framework on liquidity risk in Europe through the AIFM and UCITS Directives, as well as the best practices among the various tools recognised in several European countries.

Regarding these good national practices, IOSCO could take into account some investment fund industry guides in their elaboration of the liquidity risk recommendations. For example, the French asset management association, AFG, has issued a guide on using fund liquidity tools. It suggests that managers may use different tools depending on different degrees of liquidity deterioration (without making a compulsory link between the tools and the cases, as a too strict application might lead to unintended effects).

Finally, we would question the use of the term "*liquidity transformation*" in Chapter 3 on ensuring consistency between a fund's redemption terms and its investment strategy. In most funds, assets are valued at market price and the value of the fund units are reflected in the price. It is only when the price of fund units is implicitly guaranteed, e.g. CNAV money market funds, that there is a liquidity transformation. Such funds are very much the exception to the general rule applicable to all funds.

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