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International Organization of Securities Commissions
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RE: Consultation Report: Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes

BlackRock¹ is pleased to have the opportunity to respond to the International Organisation of Securities Commissions' (IOSCO) consultation report on proposed revisions to its *Recommendations for Liquidity Risk Management for Collective Investment Schemes*.²

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation report and will continue to contribute to the thinking of IOSCO on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

² <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD590.pdf>

Executive summary

BlackRock believes robust liquidity risk management is and has always been a critical part of fund managers' fiduciary duty to their investors. As such, we are supportive of the efforts of both IOSCO and the FSB to encourage greater availability and uptake of a broad range of liquidity risk management tools (LMTs).

As recognised throughout the Consultation Report, investment managers themselves are best placed to hold the primary responsibility for managing liquidity in their funds. The decisions to select and activate an LMT are informed by the assets a fund is invested in, market conditions for those assets, the fund's investor base, and numerous other factors, which the fund manager is best placed to assess. These decisions are often highly time sensitive and dependent on evolving market conditions.

As such, we welcome the acknowledgment that there is no 'one size fits all' approach to liquidity risk management. While some market events and conditions may affect multiple funds at the same time, variation in investment objectives, portfolio composition, jurisdictions and investor bases make it unlikely there will be a foreseeable 'right scenario' to use particular LMTs across some or all funds in a market, or an event in which one tool would be appropriate for multiple funds.

Indeed, the tools investment managers choose and are able to deploy will also be driven by local jurisdictional and ecosystem characteristics. In the US and Japan, for example, fund distribution architecture constrains the set of tools that can feasibly be implemented by managers, and how they are used. Local regulators should be cognisant of these variations when interpreting the proposed Recommendations and make efforts to coordinate with all relevant market participants to assess which toolkit or sub-set of tools is appropriate for any given jurisdiction.

In light of this, the proposed categorisation of investment funds by their liquidity requires flexibility in its implementation. Rather than hard coding the proposed thresholds for each category into regulation, we recommend that the principles underpinning each category should be embedded, as appropriate, in local regulatory frameworks. This will avoid unnecessary restrictions on the manager's ability to decide the most appropriate course of liquidity risk management, as well as preventing any cliff-edge effects that may arise from switching from one category of liquidity to another.

Transparency and clarity of information are important for fund investors. Concerning LMTs, the priority should consist of information most relevant to decision making such as what LMTs are available to be used in the fund, why they are used, how the fund utilizes them. Detailed information on specific activation thresholds and other calibration characteristics, however, could result in unintended consequences such as incentivising the arbitrage of the fund, undermining the intended purpose of the LMTs in the first instance.

Responses to questions

Recommendation 3: Consistency of OEF asset liquidity and redemption terms

1. 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?

BlackRock supports the principle that fund structures, dealing terms, and the range of liquidity management tools used – including anti-dilution mechanisms – should reflect the

tradability, liquidity, and trading costs of underlying fund assets. Such alignment, particularly of redemption frequency with the liquidity of the underlying assets, is a foundational element of robust liquidity risk management.

The categorisation of open-ended funds (OEFs) according to the liquidity of assets, however, should be approached carefully, so as to avoid rigidity that could constrain an investment manager's ability to decide the most appropriate course of liquidity risk management for an OEF.

IOSCO's categorisation of asset liquidity defines 'less liquid' assets as those in which liquidity is contingent on market conditions, but which are generally easily convertible into cash in normal conditions without significant market impact. Under stressed conditions, "such assets would not be readily convertible into cash without significant discounts and/or might be difficult to value." However, liquidity is fluid in nature, and cannot be predetermined in absolute terms solely on the basis of the type of underlying assets. As noted in our response to the FSB's [consultation](#) on the same bucketing approach³, the liquidity of all frequently traded assets is contingent on market conditions. Therefore, it is difficult to *a priori* distinguish assets that are 'readily convertible into cash without significant market impact in normal and stressed market conditions' from those where this is 'contingent on market conditions'.

For instance, though certain assets may be perceived as traditionally 'liquid', most assets that trade daily (both 'liquid' and 'less liquid' in IOSCO's categories) can experience variation in liquidity costs and transaction costs. As such, even with the use of historical modelling, the manager may not have certainty at the fund design stage as to how assets' liquidity might vary in future market conditions.

Given the categorisation of the OEF subsequently influences the appropriate fund structuring and use of LMTs, interpreting such categories as hard thresholds could lead to adverse effects or mis-categorisation of funds as market conditions change. As such, while we strongly support IOSCO's assertion that the indicative guidelines for categorising an OEF should not "create cliff edge effects as a result of a fund moving between categories", avoiding such cliff edge effects will not be helped by the implementation of rigid quantitative thresholds.

This is particularly important as the classification of assets and funds in both the liquid and less liquid categories, and the indicative guidelines used to determine this (more than 50% in 'liquid' and 'less liquid' assets respectively), may be unstable, given their reliance on relevant market conditions. For instance, assets which may typically trade with low liquidity costs may experience variation in those costs as market conditions fluctuate.

There are also scenarios in which a fund might invest in 'illiquid' assets, either directly or through a fund-of-funds structure, with a target allocation of less than 30%, which would qualify the fund as either 'liquid' or 'less liquid', but where the liquid segment of the fund's portfolio falls in value and pushes the illiquid portion over the threshold. Interpreting such guidance as hard thresholds (which trigger LMT use) could incentivise certain investors to redeem just under the threshold, voiding the intended function of LMTs, and potentially even creating a destabilising effect in the fund. As such, we also support IOSCO's proposal that recategorizations should be based on a longer-term assessment, providing sufficient time for investment managers and investors to adapt.

Rather than hard-coding the OEF categories, or the indicative guidelines that inform them, we recommend embedding the liquidity management principles underpinning each category in regulatory frameworks, that fund managers adopt them as appropriate, and are

³ FSB - Addressing Structural Vulnerabilities from Liquidity Mismatch in Open Ended Funds – Revisions to the FSB's 2017 Policy Recommendations.

prepared to justify their fund structuring and liquidity risk management decisions to their local supervisors, in accordance with any local liquidity risk management regulations.

In our view, the first consideration for determining fund structures and dealing terms should be the frequency with which underlying assets trade. If assets trade daily, there is no liquidity mismatch for daily-dealing OEFs. Where such funds are subject to variable liquidity costs and are daily dealing, we agree that these costs should be transferred on to transacting investors, to mitigate potential first-mover advantage where there is risk of material dilution. However, determining the acceptable level of dilution should remain at the investment manager's discretion. Moreover, implementing this guidance in practice will depend significantly on local jurisdictional and ecosystem characteristics. Fund distribution architectures and the timely availability of relevant data on fund flows in jurisdictions such as the US can impact assessments of dilution and the set of tools that can feasibly be implemented by managers. Where anti-dilution tools are permitted, but not yet operationally feasible, local regulators should be cognisant of this challenge when interpreting the proposed Recommendations and make efforts to coordinate with all relevant market participants to assess which toolkit or sub-set of tools is appropriate for any given jurisdiction.

As such, the proposal to require Category 2 funds (those investing mainly in less liquid assets) to 'consider and use measures to reduce the liquidity offered to fund investors (e.g. by reducing redemption frequency and/or by implementing long notice or settlement periods), as considered appropriate by authorities' if they do not implement anti-dilution tools, is inappropriate.

As discussed, open-ended funds should be able to deal on the basis of their underlying assets, meaning for instance, that OEFs with a higher allocation to traditionally illiquid assets often have less frequent dealing periods. For OEFs which predominantly hold liquid or less liquid assets, which trade on an intra-day basis, implementing restrictions on the dealing frequency or other liquidity reducing measures would represent a significant shift in the nature and purpose of the fund. These OEFs are typically valued for their regular liquidity and ability to redeem units/shares at an investor's request.

Such restrictions would likely limit operational flexibility and create a lopsided effect for fund investors – in particular, in comparison to investors holding these assets directly, potentially encouraging investors away from the additional regulatory protections of fund wrappers entirely.

These liquidity reducing measures may also accelerate redemption pressure, because of the exceptional market circumstances they are typically associated with, likely worsening the dilution they intend to mitigate. Furthermore, in some jurisdictions, such restrictions on dealing terms may not be permitted for open-ended funds – such as in the U.S., where notice periods, lock-ups, and redemption caps are not permitted for US OEFs under the Investment Company Act of 1940.

If the OEF cannot utilise an anti-dilution tool (perhaps due to operational challenges in their regional ecosystem), and the manager detects there is a risk of dilution, investment managers should be permitted to use quantity-based tools or other liquidity risk management measures, subject to justification to their relevant supervisory authority.

The identified common components of an OEF's structure, including notice periods, lock-up periods, settlement periods and redemption caps, are accurately captured but should not be considered exhaustive, or attempt to act as exclusive definitions for each LMT, in order to preserve the ability for investment managers to use their discretion to act in the best interests of investors.

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

2. 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?

LMTs can be used in all aspects of a fund's life cycle, so we agree that anti-dilution tools can be used as part of the daily operations of an OEF, and such regular use is likely to enhance their effectiveness. However, it is important to stress that such use remains at the discretion of the investment manager. The manager's decision to activate an LMT should be informed by their determination of a risk of dilution, taking into consideration the assets a fund is invested in, market conditions for those assets, the fund's investor base, and numerous other factors.

The Consultation Report highlights a number of factors that have to be considered in relation to anti-dilution tools, including the difficulty in accurately calculating market impact in the redemption price. The accuracy of the estimated market impact will depend on the calibre of market data available. Access to complete, same-day fund flow data for each dealing day plays a significant role in the ability to assess liquidity costs. The structure of certain market ecosystems such as the US, may mean this is not currently possible to obtain. Even in jurisdictions with more available data, these evaluations of liquidity costs are still just estimates, and generally speaking, will differ to the actual transaction costs incurred, regardless of the sophistication of the investment manager's efforts. For this reason, we feel managers should be expected to calculate their estimates on a best-efforts basis, based on the information available to them.

Over and above that, managers should have discretion concerning the incorporation of market impact with appropriate evidence, rather than market impact being always required in some manner. There are instances where the manager may not possess the capability to include market impact (e.g., access to data, or the experience/expertise to apply it). Similarly, there may be instances where the inclusion of market impact would not be particularly beneficial for that anti-dilution tool, such as with subscription and redemption fees, which are often static fees, and as such cannot exactly reflect the market conditions necessary for a market impact estimate.

Sole reliance on quantity-based tools, such as suspensions, redemption (or subscription) gates, and the extension of notice periods or settlement periods, may be appropriate if there is little to no risk of dilution.

In certain fund types, dilution is structurally unlikely, such as 'funds of one', where a segregated mandate is wrapped in a fund structure, there is only one shareholder in the fund, meaning there is no dilutive effect of a subscription or redemption, or master/feeder structures, where dilution is less likely to occur at the feeder fund level, but rather would be a more relevant consideration at the master level. Other funds, such as those in Category 3, which invest mainly in illiquid assets, are likely to be structured in a way that limits liquidity demands from investors (e.g. less frequent dealing periods) and as such, would find quantity-based tools such as the extension of notice or settlement periods most appropriate. Ultimately, it is the investment manager's primary responsibility to determine which LMT is most appropriate to select and activate for their fund.

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

Managers may take other actions, notably the 'soft closure' of a fund, which refer to a sliding scale of measures which allow fund managers to restrict the level of subscriptions, allowing them to determine whether they will temporarily gate subscriptions, cease active marketing

of the fund or suspend them entirely. Similarly to redemption gates, this prevents subscriptions of excessive size, which could create a potential dilutive effect.

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

4. 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?

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

In response to both Questions 4 and 5:

We broadly agree with the list of the governance elements outlined in the Consultation Report. Strong governance processes should be in place to ensure effective liquidity risk management of open-ended funds.

We recommend however, that managers be granted the discretion to structure the governance elements outlined in the Consultation Report in a way that is appropriate to their business. Each investment manager is structured differently, and individual funds vary in their size, complexity and legal structure; as such, a 'one-size fits all' approach is likely to be inappropriate.

Broader availability and use of LMTs represent an important element of robust liquidity risk management, but as noted by the FSB, 'liquidity preparedness' – for margin and collateral calls for example – is equally important from a system-wide perspective.

It is equally important to acknowledge however, that market participants' ability to conduct their own rigorous stress testing and scenario analysis for margin and collateral calls – another fundamental mitigant of liquidity stress – is dependent on the information made available to them by their intermediaries, and specifically Central Clearing Counterparties (CCPs).

The degree and quality of CCP margin transparency varies greatly from CCP to CCP, and greater transparency regarding the margin models used by their CCPs, as well as user-friendly margin simulation tools to stress test that information would benefit market participants. We welcome recent recommendations to this effect and urge supervisors to implement the proposals expeditiously.

As a complement to these proposals, an expansion of the range of collateral used to meet margin requirements could also help reduce investors' need to either sell assets or excessively rely on cash. We recommend expanding acceptable collateral to include certain types of Money Market Funds (MMFs) and Exchange Traded Funds (ETFs), where available.⁴

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

⁴ For further discussion of margin practices and risk management, see our response to the BCBS-CPMI-IOSCO consultation on ['Transparency and Responsiveness of Initial Margin in Centrally Cleared Markets'](#).

6. 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?

Transparency and clarity of information are important for fund investors. Fund investors should have appropriate information in the prospectus on what LMTs are available to be used in the fund, why they are used, how the fund utilizes them, and, if appropriate, ex-post disclosure of how they have been used. This is particularly important in markets where the use of LMTs such as anti-dilution tools are less familiar, as this will facilitate the significant education and engagement efforts needed to bring investors and distributors up to speed. This would also prevent the associated costs of anti-dilution tools being incorrectly perceived as a cost difference between different types of funds – which could otherwise unduly influence investors' fund selection decisions.

We recommend that the level of ex-ante transparency should be indicative rather than prescriptive:

- For instance, in Recommendation 16, the Consultation Report describes outlining “what actions the responsible entity would take in the event of a liquidity problem”, which could imply that fund managers always follow a predetermined deployment plan when activating LMTs. While it is important to prepare ahead, as part of a robust operational resiliency framework and good business continuity management, fund managers still require flexibility to tailor the activation of tools to address the specific market circumstances at the time, in the best interests of investors.
- Moreover, decisions to activate LMTs are often highly time-sensitive and dependent on evolving market conditions, so may vary from the stated outline on a case-by-case basis. Such disclosure could create false expectations for investors, who do not possess the same oversight or expertise of fund as the fund Board would, and as such, may lack the necessary context needed to understand the decisions taken in a particular scenario.
- Similarly, disclosing elements such as the specific activation thresholds or other calibration details could incentivise certain investors to redeem just under the threshold, undermining the intended function of LMTs, and potentially even creating a destabilising effect in the fund. Instead, if the intention is to provide investors with understanding of why a particular LMT could be or has been activated, managers may give a high-level qualitative indication of the conditions for activation, such as high subscription or redemption requests and market stress in the case of redemption gates.

Ex-post disclosures of how an OEF has used anti-dilution tools, could be provided upon request with an appropriate delay. This could, for example, include providing investors information regarding the size and direction of a pricing swing in relation to relevant investor transactions on any given valuation day, rather than the specific adjustment factors applied.

The appropriate and feasible timeframe for disclosing the ex-post use of LMTs will again depend on a number of factors, and should be assessed on a reasonable efforts basis, subject to the challenge of the relevant supervisor and relevant local market practice.

Other Proposed Revised Liquidity Recommendations

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

Recommendation 10 references funds being able to identify an emerging liquidity shortage before it occurs, suggesting the LRM process should “aim to assist the responsible entity in identifying liquidity pressures, from redemption demands or margin or collateral calls, before they crystallise”.

While a fund manager may foresee a specific liquidity challenge could develop, based on emerging market conditions, it may not be appropriate to activate certain LMTs until it becomes apparent that such conditions would impact the fund’s ordinary course of dealings in the light of the actual level of investor flows. This ability is not possible in all instances and should therefore be considered on a ‘reasonable efforts’ basis only.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the consultation report and will continue to work with IOSCO on any specific issues which may assist in enhancing liquidity risk management.

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RE: Consultation Report: Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management

BlackRock¹ is pleased to have the opportunity to respond to the International Organisation of Securities Commissions' (IOSCO) consultation report on its *Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management*.

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We welcome the opportunity to comment on the issues raised by this consultation report and will continue to contribute to the thinking of IOSCO on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Responses to questions

Proposed Guidance 1 – Determining asset and portfolio liquidity

1. To what extent does Proposed Guidance 1 help responsible entities to better integrate quantitative and qualitative factors to determine the liquidity of the portfolio? Have all the critical elements been captured?

We agree that both quantitative and qualitative factors should be considered by the investment manager when determining asset liquidity. IOSCO rightly identifies some of these factors as market depth and turnover, days to trade, efficiency and effectiveness of price mechanism, price impact of large transactions, operational features & potential frictions, and valuation certainty.

This is not an exhaustive list, however, and the range of factors that need to be considered for each individual fund will vary significantly according to the fund's portfolio, and the characteristics of its underlying assets. For instance, in some fixed income markets, daily volumes can have high variance, meaning Average Daily Volume (ADV) metrics represent a conservative or lower-bound estimate of what is tradable. This can be supplemented by daily posted inventory volumes ('dealer axes') to distinguish between the volume that typically trades and the volume that is tradable in the market, subject to variation in transaction costs.

The examples provided in Box 2 are helpful in outlining how the integration of quantitative and qualitative factors might look in different jurisdictions, asset classes, and markets. As highlighted by IOSCO, however, the relevance of these factors will vary dependent on the numerous considerations applicable to the highly heterogeneous universe of OEFs, and investment managers themselves are best placed to determine how and if these factors are incorporated into their liquidity assessment processes.

We would caution against guidelines similar to the Bank of International Settlements Guidance for Supervisors on Market-Based Indicators of Liquidity which uses quantitative metrics such as the 'High Quality Liquid Assets' (HQLA) construct, which was originally developed for bank liquidity buffer calculations under Basel III.

While an appropriate measure for banks, as they need to meet requests for deposits at par, fund investors hold a redeemable equity stake in the fund, the value of which fluctuates with the net asset value of the portfolio. Fund managers therefore typically aim to meet redemptions on a pro-rata basis by selling over time a representative 'slice' of the portfolio at current market prices. Portfolios are structured using ongoing liquidity stress testing so that cash or highly liquid assets are not relied on as the sole source of liquidity. As such, funds will sell a range of securities and not just rely on cash, cash equivalents, or government bonds in portfolios to weather a market shock or manage large outflows.²

Proposed Guidance 2 – Consistency between portfolio liquidity and redemption terms

2. Are there any additional considerations or examples that should be added in the Proposed Guidance 2 regarding consistency between portfolio liquidity and redemption terms?

We agree that redemption terms should be consistent with the portfolio liquidity, but this alignment should consider that there are different elements of the redemption terms –

² For further discussion of assessment of open-ended funds' liquidity, see BlackRock, [Addendum to Liquidity Risk Management is Central to Open-Ended Funds](#), January 2021.

which include dealing frequency, notice periods, and settlement periods, among others, by IOSCO's definition. Fund redemption frequencies should be informed by how frequently underlying assets can be traded; while notice periods should reflect the planning and preparation needed to transact in underlying assets. If assets trade daily, there is no liquidity mismatch for daily-dealing OEFs.

For example, some types of asset-backed securities (ABS) are traded daily, and therefore funds investing in ABS can offer daily dealing, as also highlighted by IOSCO. However, trading in these types of ABS requires portfolio managers to gather quotes over the course of a few days before the relevant dealing point. Prior day notice periods, for example, give time for this process to take place, and would be an appropriate way of structuring the fund, even where offered as a daily dealing fund.

We agree that a regulatory minimum liquidity buffer would be counterproductive in a number of ways, chiefly that it could indeed encourage a first mover advantage, by increasing the incentive to redeem first, taking advantage of cash balances while a fund has not yet crossed its buffer threshold into less liquid assets.

Guidance 2 also asks that managers should try to ensure they have "sufficiently good knowledge" of the investor base, in cases where a fund with a concentrated investor base could experience material dilution as a result of potentially large redemptions, so that they can better understand the risk appetite, potential outflows and level of investor understanding concerning liquidity factors. Such a level of understanding of the investor base may prove more challenging where fund distribution is significantly intermediated, so the local supervisor's interpretation of 'sufficiently good' should take this into account.

Proposed Guidance 3 – Overall framework for the design and use of LMTs and other liquidity management measures

3. Do you agree with Proposed Guidance 3 regarding the inclusion of quantitative LMTs and/or other liquidity management measures within the overall liquidity risk management framework that OEF managers should have in place at all times?

4. Is Proposed Guidance 3 appropriate for all types of OEFs in its scope, and proportionate for all types of responsible entities to implement? If not, please explain.

In response to both Questions 3 and 4:

We agree with the use of both quantity-based LMTs and anti-dilution LMTs as part of the overall liquidity risk management framework, where appropriate and feasible.

IOSCO highlights the conclusions of the FCA's multi-firm review of liquidity management as an example of governance best practices concerning the oversight of liquidity. We broadly agree with the list of elements proposed as an example but would caution against governance policies prescribing the exact course of action concerning the activation of LMTs, as fund managers require a level of discretion in order to manage liquidity in varying circumstances. The liquidity 'playbook', which suggests outlining the "actions and escalations to be followed when liquidity stress testing triggers have been activated implies that fund managers always follow set predetermined deployment plans per specific market scenario when activating LMTs. While it is important to prepare ahead, as part of a robust operational resiliency framework and good business continuity management, fund managers still require flexibility to tailor the activation of tools to address the specific market circumstances at the time, in the best interests of investors.

Guidance 5

Guidance 5 asks that investment managers attribute the explicit and implicit transaction costs to transacting investors to mitigate material dilution and protect remaining investors. Incorporating accurate explicit costs, such as taxes, broker fees, or custody transaction charges, will usually depend on whether the manager has access to the relevant data sources, which may lie in the hands of other parties such as traders, or indeed incur a cost to obtain. For implicit costs, particularly market impact, the challenge of accessing data is often even more pronounced. The calculation of market impact requires that the fund accountant is able to adjust the published fund NAV or price for the expected dilution due to a subscription or redemption. Methodologies for assessing this vary by asset class, but a major input to market impact assessments is comprehensive, same-day fund flow data for each dealing day, which is not currently available in certain jurisdictions, for example in the US.

This impacts liquidity cost assessments in these jurisdictions. Obtaining access to same-day flow data in such jurisdictions could require significant change to the systems and processes of other entities such as intermediaries and retirement plan recordkeepers, especially if a high degree of confidence and accuracy in the estimates of liquidity costs is expected.

As such, we welcome IOSCO's acknowledgement that there may be "a degree of uncertainty for the market impact estimated despite the best efforts" of managers. This also underscores our view that managers should have discretion concerning the incorporation of market impact with appropriate evidence, rather than market impact being always required in some manner. There are instances where the manager may not possess the capability to include market impact (e.g., access to data, or the experience/expertise to apply it), or where including market impact is not particularly beneficial for that anti-dilution tool, such as with subscription and redemption fees, which are often static fees, and as such may not facilitate an exact reflection of market impact. We agree that managers should however be able and prepared to justify their liquidity risk management decisions to their local supervisors.

As part of the methodology for calculating significant market impact, Guidance 5 suggests using data from a slippage assessment of the fund's transactions. While slippage can be used as a proxy to measure market impact, it is worth stressing that the concepts are not the same. Slippage may not always be suited to all asset classes, due to varying market structures and their related trading practices.³

Proposed Guidance 7 – Types of Quantity-based LMTs and Other Liquidity Management Measures

5. Has the proposed guidance identified all of the quantity-based LMTs and other liquidity management measures commonly used by responsible entities? Are there any other LMTs that share the same objectives and that could be included in this guidance? If so, please describe them.

As highlighted in Question 3 of our [response](#) to IOSCO's consultation report on its Revised Recommendations, managers may also activate a 'soft closure' of a fund, which refer to a sliding scale of measures which allow fund managers to restrict the level of subscriptions, allowing them to determine whether they will temporarily gate subscriptions, cease active marketing of the fund or suspend them entirely. Similarly to redemption gates, this prevents subscriptions of excessive size, which could create a potential dilutive effect.

³ See further discussion in our [ViewPoint: Disclosing Transaction Costs - The need for a common framework](#).

6. Are the identified quantity-based LMTs and other liquidity management measures described correctly? Do the features or characteristics of the different tools and measures vary or do they generally operate as described?

Contrary to the inference in Guidance 7, quantity-based LMTs are not just used under stressed market conditions, and may even be activated somewhat regularly depending on the liquidity profile and redemption structure of the fund. In 'liquid' Category 1 funds, the use of a redemption gate for instance would indeed typically be limited to exceptional circumstances when redemptions exceed a threshold and where the fund has liquidity concerns about being to realise the assets in the underlying markets. For Category 3 funds, those investing mainly in illiquid assets, however, it is likely that gates will be used more systematically. For example, the European Long-Term Investment Fund (ELTIF) regime permits managers to use gates on a systematic basis at each dealing point, e.g. no more than 5% redemptions on any one dealing day depending on the fund's overall expected liquidity.

We would see a similar approach being of value to other funds with similar limited redemption characteristics. It is important that the use of gates and the liquidity profile of the fund are clearly disclosed to both regulators and investors to ensure liquidity expectations are well understood.

Concerning the description of suspensions, IOSCO proposes that investment managers should "close the OEF to both redemptions and subscriptions" when activating a suspension. Fund documentation provided to investors will typically outline circumstances under which subscriptions may be suspended, but this does not usually assume that suspending redemptions will automatically trigger the suspension of subscriptions.

Subscriptions, repurchases and redemptions can function independently from each other so long as the NAV can still be priced. For example, an illiquid fund may still be able to buy assets whilst not being able to sell and vice versa. This happened on several occasions during the COVID-19 pandemic, where funds could either buy but not sell, sell but not buy, or in some instances could neither sell nor buy. Ultimately, this is a decision that should be guided by the liquidity needs of the investor, the liquidity profile of the assets and the liquidity strategy of the fund. If a suspension was introduced to address redemption pressures, reopening subscriptions before redemptions - where viable - could help the overall liquidity position of the fund and be beneficial to the remaining investors.

7. What additional key elements should Proposed Guidance [7] take into consideration regarding the use of each quantity-based LMT and liquidity management measures identified? Are there any particular types of OEFs that are not suitable to use some of these tools and measures?

IOSCO suggests that an overreliance on quantity-based LMTs may lead to investors being able to anticipate their activation, which could prompt more redemption demands to avoid this, i.e. 'gaming' the fund.

In our view, the possibility of 'gaming' a fund is most significantly influenced by the level of disclosure required about the specific activation thresholds of a fund, rather than an 'overreliance'. Disclosure which details these thresholds creates more of an incentive for investors to arbitrage the fund by redeeming just before the fund reaches the threshold.

Sole reliance on quantity-based LMTs, such as suspensions, redemption (or subscription) gates, and the extension of notice periods or settlement periods, may be appropriate if there is little to no risk of dilution. In certain fund types, dilution is structurally unlikely, such as 'funds of one', where a segregated mandate is wrapped in a fund structure, there is only one shareholder in the fund, meaning there is no dilutive effect of a subscription or redemption,

or master/feeder structures, where dilution is less likely to occur at the feeder fund level, but rather would be a more relevant consideration at the master level. Other funds, such as those in Category 3, which invest mainly in illiquid assets, are likely to be structured in a way that limits liquidity demands from investors (e.g. less frequent dealing periods) and as such, would find quantity-based tools such as the extension of notice or settlement periods most appropriate. Ultimately, it is the investment manager's primary responsibility to determine which LMT is most appropriate to select and activate for their fund.

Suspension of subscriptions, repurchases and redemptions

The playbook for activation of a suspension as described on page 40 of the Consultation Report is too prescriptive, and assumes the manager has more information ahead of time than they may be able to achieve. Providing a simulation of the liquidity profile of the fund following the market stress, while at the point of suspension, as described in point (ii) would be speculative at best, as the accuracy of such a simulation would be hard to guarantee, making the information redundant.

Point (iii), an assessment of the impact of the suspension on investors, is also challenging and potentially inappropriate. The decision to suspend is taken by the fund manager in order to fulfil their overarching fiduciary duty to act in best interest of investors, so assessing such an impact seems contradictory to this purpose. It may also be difficult to implement as it is often challenging to determine who the individual investor is with precision, such as when funds are distributed through intermediaries.

The exit plan described in point (vi) may be complex to draw up in such exceptional circumstances, and indeed, misleading. How the manager will 'exit' the suspension will heavily depend on the specific circumstances and market conditions that warranted suspending in the first place, and restricting the manager's flexibility to tailor their decisions will not be helpful in unexpected circumstances. As a form of contingency planning, the exit plan is not suitable for sharing with investors, and as such, we would assume is proposed primarily for the consideration of supervisory authorities. During periods of market stress, managers typically maintain close communication with supervisory authorities on a regular basis, so would not need to rely on a static documented plan.

Point (vii) also should not be included in the LMT plan as the decision to suspend should be based on what is in the best interests of fund investors within the bounds of local regulation, and factoring in potential legal and compliance risks associated could negatively influence the manager's decision making.

Exceptional circumstances

Concerning the description of 'exceptional circumstances' for the purposes of suspensions and side pockets, we would caution against viewing exceptional circumstances primarily through the lens of 'unforeseen events' as it implies that side pockets and suspensions should only be activated in completely novel circumstances, which we would disagree with. Exceptional circumstances lie at the most severe end of a spectrum, so while a fund manager may anticipate a specific liquidity challenge developing, based on emerging market conditions, it may not be appropriate to suspend the fund or activate a side pocket until it is clear that such conditions would materially impact the fund's ability to "carry out normal business functions...[or] meet the funding obligations arising from the liabilities side of the balance sheet."

Given their unpredictable nature, it wouldn't be suitable to provide a list of what constitutes exceptional circumstances. These instances are difficult to predict in advance, and even a non-exhaustive list could bias or restrict a fund manager's judgment in determining the appropriate threshold at which to activate these LMTs. Moreover, close engagement

between NCAs and managers is typical in stressed market conditions, providing an opportunity for managers to justify their decision to suspend, where necessary.

A fund manager may also choose to activate a temporary suspension on non-dealing days, which may not necessarily fit neatly into the ‘exceptional circumstances’ definition. A non-dealing day would likely occur where a fund is marketed across several jurisdictions, but has exposure to an underlying local market that is closed or has historically low dealing volumes during a specific period, such as Lunar New Year, or Golden Week.

Redemption gates

In most cases, we would agree that the same redemption gate should apply to all redeeming investors, without differentiation by type of investor or share class, following the principle of equal treatment of investors. However, it may be necessary at times to prevent material dilution of fund holdings.

Some OEFs may have concentrated investor bases, where a redemption of significant size could generate a trade that cannot be executed without having an adverse market impact on other fund investors. Typically, this type of investor will hold a different class of fund shares to other investors. To enhance the effectiveness of gates, policymakers could explore the possibility of refining the tool to allow application to specific share classes (e.g. those limited to institutional investors), or even specific investors.

The guidance states that managers should clarify if non-executed redemption orders “will receive preferential treatment or be treated on an equal footing with new redemption orders submitted for execution at this dealing day, considering that giving them priority would fuel first-mover advantage.” This potentially brings an element of unfairness, as the gated redeemers – or subscribers – who waited for the gate to lift should always get priority over those submitting a new redemption or subscription request.

Notice periods

IOSCO proposes that the “extension of the notice period should be proportionate to the initial notice period” at least such that it does not “change the nature of the OEF, or have an impact on the dealing frequency.” Managers should of course do their best to uphold the fund’s stated dealing frequency and nature, but in stressed market conditions, it may be challenging to predict with any certainty when the situation necessitating the extension of the notice period in the first place will be resolved, therefore it may necessitate the notice period being extended.

Side pockets

We encourage supervisors to take a flexible approach concerning the range of methods to create and use a side pocket. IOSCO outlines a variety of methods, including both accounting and physical separation, as well as liquidity management mechanisms which operate similarly to side pockets, underscoring the principle that different methods of dealing with problem assets will suit different funds. In some jurisdictions however, there are restrictions around the use of accounting segregation, which may deter some fund managers from creating side pockets at all, due to the prohibitive costs and operational burden sometimes associated with physical segregation. Local supervisors should bear this principle in mind, to ensure fund managers have as broad a range of tools at their disposal to protect investors of affected funds.

8. Do you have any practical examples on the use of these quantity-based LMTs and other liquidity management measures that could be included in the implementation guidance?

No additional comments.

Proposed Guidance 8 – Appropriate Activation and deactivation of Quantity-based LMTs and Other Liquidity Management Measures

9. Do you agree with Proposed Guidance 8 regarding the considerations on activating and deactivating quantitative LMTs and/or other liquidity management measures? Are there any additional key elements that responsible entities should consider in this regard?

Supervisors benefit from fund managers providing clear details on activation thresholds and governance processes related to the activation of quantity-based tools, as this transparency helps them monitor market activities and assess the level of investor protection.

However, providing “greater clarity” around this information to investors should be approached with caution. As we have highlighted previously (see Question 6 of our [response](#) to IOSCO’s consultation report on its Revised Liquidity Risk Management Recommendations) disclosure of details around thresholds and activation practices could facilitate investors attempting to arbitrage the fund. With this in mind, clear disclosure to investors could still be achieved by stating the use of the quantitative tool in the fund, a qualitative description of the circumstances in which these tools may be activated, and a high-level overview of the governance structure.

Proposed Guidance 9 – Stress Testing

10. Do you agree with the stress testing elements identified in Proposed Guidance [9]? Are there any additional considerations or good practices that should be covered by this section?

Generally speaking, liquidity risk stress testing is one part of a broader risk management process to help inform both ongoing portfolio management decisions, and effective risk oversight of OEFs.

Precision on any liquidity stress test must be qualified based on the availability of market data and the inherent limitations of historical observations to predict future investor behaviour. Therefore, it is important not to place an overreliance on stress test results as definitive conclusions of the exact liquidity and redemption risk in a given fund.

Tailoring stress testing scenarios

IOSCO states that OEFs which adopt a nominee holding arrangement, i.e. distribution through platforms or intermediaries, should “take all reasonable steps to obtain such information from nominees to facilitate stress testing” and where this isn’t possible, such OEFs should “assume that the OEF faces redemption for all the units sold through a particular distributor or faces overall redemptions of a certain magnitude reflecting the possibility that a large share of its investor base will decide to redeem at the same time.”

While we acknowledge the complex nature of liquidity risk stress testing for OEFs intermediated by distribution networks, applying a default assumption that all units sold through a particular intermediary will be redeemed is too restrictive and extreme, and does not afford managers the flexibility to consider other relevant inputs which may inform

potential flows. For instance, some retail investors may hold fund units as part of a tax-incentivised savings account, or could be invested via a vehicle intended for pensions savings, making it more likely they would stay invested for the long-term, even through periods of market stress. Managers may also choose to incorporate historical redemption scenarios from funds with similar underlying assets and distribution structures.

Assessments of the possible behaviour of other market participants or concentration of certain markets cannot be made with the data coverage and granularity that currently exists. In some jurisdictions, the data quality available to market participants on trading activity can be fragmented, inconsistent, or of poor quality. Therefore, such assessments would require policymakers to work with industry and other authorities to improve data availability and quality across the board.

Concerning stress testing for OTC securities, we would agree that placing more reliance on forward looking hypothetical presumptions is more appropriate if in reference to OTC derivatives. If in reference to certain fixed income instruments which are OTC, historical data availability varies per region, so will typically be a blend of historical data, hypothetical assumptions, and expert judgment.

Other

11. Do you have any practical examples regarding governance arrangement and disclosure about the use of LMTs and/or other liquidity management measures that could be included in the implementation guidance?

No additional comments.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the consultation report and will continue to work with IOSCO on any specific issues which may assist in enhancing liquidity risk management.