

MEMO# 35434

September 14, 2023

ICI Global Response to FSB and IOSCO Consultations on Liquidity Risk Management for Open Ended Funds

[35434]

September 13, 2023

TO: ICI Members
ICI Global Members
Asia Regulatory and Policy Committee
Broker/Dealer Advisory Committee
Equity Markets Advisory Committee
Europe Regulatory and Policy Committee
Financial Stability and OEF Working Group
Operations Committee
SEC Rules Committee SUBJECTS: Disclosure
Fees and Expenses
Financial Stability
Fund Accounting & Financial Reporting
Fund Governance
International/Global
Operations
Portfolio Oversight
Recordkeeping
Risk Oversight
Settlement
Valuation RE: ICI Global Response to FSB and IOSCO Consultations on Liquidity Risk Management for Open Ended Funds

ICI Global has filed comments with the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) regarding their recent Consultations on liquidity risk management in open-ended funds (OEFs).[\[1\]](#) This memorandum summarizes ICI Global's comments.[\[2\]](#)

Summary: ICI Global Comments

ICI Global expressed support for the FSB and IOSCO's work. While we did not agree with all aspects of the Consultation, we supported many aspects that recognize the benefits of

collective investing while promoting effective management of dilution including:

- Broad availability of anti-dilution LMTs and expanding such availability where appropriate and consistent with jurisdictional mandates;
- That fund managers are best placed to decide whether and how to use LMTs;
- That there cannot be a one-size-fits-all approach to OEF liquidity risk management;
- The distinction between adoption and activation of anti-dilution LMTs;
- Aiming to mitigate rather than eliminate dilution;
- Leaving the definition of "material dilution impact" open; and
- Redemption terms for OEFs that are consistent with investment strategies and portfolio liquidity.

ICI Global did not support aspects of the Consultations that would restrict responsible entities' discretion to manage liquidity risks in the interests of investors.

Specifically, we opposed requiring all OEFs to take steps to mitigate a presumed first-mover advantage and use an anti-dilution LMT. We presented research on US funds and fixed-income UCITS that shows that dilution is too small to incentivize the vast redemptions that the FSB and IOSCO theorize would trigger runs on funds and lead to financial instability. We found that for many funds, dilution is de minimis even in times of market stress. The costs of adopting and operationalizing a tool, even if it is not always activated, would outweigh any benefits of mitigating the de minimis dilution for such funds.

ICI Global did recognize that responsible entities should be required to assess liquidity risk, but given the latitude to manage it—which may, but need not, include use of anti-dilution LMTs—in the best interest of investors. We recommended fund managers undertake this assessment of liquidity and, only if a fund manager determines that an OEF's potential dilution is significant, assess various anti-dilution approaches that would include (but not be limited to) the five specified anti-dilution LMTs.

We also opposed requiring funds to incorporate estimates of market impact in their calibrations of anti-dilution LMTs. Calculating market impact often is a subjective activity for which some funds have no readily available and reliable data. Taking an expansive view of transaction costs that sacrifices precision does not necessarily result in fairer outcomes, as fees could be calibrated in a way that penalizes or unduly burdens exiting investors. We encouraged permitting an OEF to include implicit costs on a voluntary basis where the OEF concludes that the costs can be estimated with high confidence.

ICI Global also encouraged FSB to eliminate the proposed fund bucketing framework. The approach is rigid and not consistent with the principle that there is no one-size-fits-all approach to OEF liquidity risk management. It is disproportionate, going further than necessary and not designed to address policymakers' concerns about liquidity mismatch. The three crudely drawn buckets miss the mark; they are not clearly defined and do not consider relevant risk factors and mitigants. We expressed concerns that the approach could lead to unintended cliff-edge effects, due to the dynamic nature of liquidity, which could be confusing.

We disagreed with the premise that the OEF structure, and the potential for dilution, creates and amplifies financial stability risks. We also provided analysis illustrating that existing legal frameworks for OEFs have protected investors and the financial system, including through stressed conditions.

Kirsten Robbins
Associate Chief Counsel, ICI Global

Notes

[1] The FSB letter is available [here](#) and the IOSCO letter is available [here](#).

[2] For a summary of the FSB and IOSCO Consultations, see [ICI Memorandum No. 35372](#) (Jul. 11, 2023).

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