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ICI: UCITS Weathered COVID-19 Market Crisis Well

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New ICI Survey Shows Funds Met Redemptions and Used Varying Approaches to Address Challenges amid Stressed Credit Markets

Washington, 17 December 2020—UCITS managers responded to challenges created by the COVID-19-related market turmoil in March by using a variety of tools, according to a new paper—"Experiences of European Markets, UCITS, and European ETFs During the COVID-19 Crisis"—issued by the Investment Company Institute (ICI). ICI's research shows that, despite equity market volatility and stressed dollar funding markets caused by economic devastation accompanying the COVID-19 pandemic, the overwhelming number of UCITS funds managed to operate normally and redeem shares on demand.

"UCITS managers responded to stressed markets by managing liquidity in a variety of ways," noted ICI Global Chief Counsel Jennifer Choi. "Despite the unprecedented market volatility earlier this year, the overwhelming majority of UCITS continued to operate normally and redeem shares upon demand."

The ICI paper, part of the Report of the COVID-19 Market Impact Working Group, draws on extensive data from March market events and includes findings from a survey of ICI members managing UCITS on the use of liquidity management tools.

"The economic crisis produced by the COVID-19 pandemic was a real-world stress test for the financial markets and the funds operating in them," said ICI President and CEO Eric J. Pan. "This paper—the latest in a series—presents extensive data-supported analysis on how fund managers responded to the crisis and will prove instructive in assessing the performance of the global financial regulatory system during this extraordinary time."

Money Market Fund Investors Sought Safety in Reduced Risk and Increased Liquidity

During the month of March, investors worldwide sought to protect and build their liquidity. ICI analysis confirms European money market fund investors were no exception, with outflows from various types of European money market funds, regardless of domicile.

Specifically, the data show that, in the second half of March, at the height of the market stress, low volatility net asset value (LVNAV) funds denominated in US dollars, euro- and sterling-denominated LVNAV funds, and French-domiciled variable net asset value (VNAV) funds all experienced outflows, which were only partly offset by inflows to public debt constant net asset value (CNAV) funds (page 15).

Exchange-Traded Fund (ETF) Ecosystem Proved Resilient

ICI's report also notes that ETFs in Europe proved their resilience during the March market volatility, particularly in the fixed-income market (page 34). Although bond ETFs experienced net outflows of €12 billion in March, or 5.2 percent of their February assets, ETF shares traded smoothly and resiliently during this period, acting as a price discovery tool for the markets and investors. Bid-ask spreads on large European corporate bond ETFs widened, but on average remained narrower than those on their underlying securities (page 35). Outflows from bond ETFs abated toward the end of March and inflows resumed in April (page 37).

UCITS Deployed Variety of Liquidity Management Tools

ICI's report provides new, detailed information confirming that fund managers responded to the March market turmoil and liquidity pressures using an array of tools. These tools are in addition to the UCITS manager's ongoing liquidity management program. UCITS managers may use many of the tools available to them during normal conditions, but these tools can take on increased importance during times of stress. Among liquidity management tools, fund managers often included in their toolbox in-kind redemptions, temporary borrowings, and swing pricing (pages 29–33).

Notably, the survey found that swing pricing was the tool respondents used most often during March and April 2020. UCITS use swing pricing regardless of market conditions to promote equitable treatment across investors by having investors who purchase or sell fund shares bear the transaction costs. The report also contains new data on the number of times respondents executed such swings (pages 31–32). ICI's survey shows that members that use swing pricing noted that NAVs were swung more frequently during the stressed period in March.

The tools included in UCITS' toolkits and the extent of their use during March is shown in the chart below.

Adoption and Use of Liquidity Management Tools by Fund Complexes During Spring 2020
Percentage of fund complexes, March and April 2020

Note: Results are based on responses from 29 fund complexes as to whether at least one of their UCITS had the specified liquidity management tool available and whether at least one of their UCITS made use of the tool in March or April 2020.

Source: ICI Global survey data

Report Overseen by ICI's COVID-19 Working Group

This paper is the fourth in ICI's series Report of the COVID-19 Market Impact Working Group. The report is being issued under the auspices of ICI's COVID-19 Market Impact Working Group, which consists of senior industry executives reporting to the Executive Committee of ICI's Board of Governors, and which operates under the direction of Paul Schott Stevens, ICI's recently retired president and CEO. The working group is examining the causes of the market turmoil in early 2020 and the experiences of regulated funds. The report will provide a sound, data-based foundation for any future regulatory discussions or other responses that could affect regulated funds and their investors. ICI’s research, law, industry operations, and global groups wrote the report, and previous papers in the series include:

- “The Impact of COVID-19 on Economies and Financial Markets”
- “Experiences of US Exchange-Traded Funds During the COVID-19 Crisis”
- “Experiences of US Money Market Funds During the COVID-19 Crisis”
