



AUTORITÉ  
DES MARCHÉS FINANCIERS

Print from the website of the AMF

06 March 2018

## The AMF clarifies the framework applicable to investment funds' liquidity risk management tools

**On 1 February 2018, the International Organization of Securities Commissions (IOSCO) issued recommendations and good practices for liquidity risk management for open-ended funds. Against this backdrop, the Autorité des Marchés Financiers (AMF) continues its efforts to update the French framework. It invites management companies to consider the option of introducing, in their regulatory documents, the ability to use redemption gates to manage liquidity crises in the interest of unit-holders or shareholders.**

Liquidity risk is the risk of an excessive mismatch between the liquidity of the assets in which a fund has invested and the redemption terms for investors. In the context of a sharp rise in assets under management worldwide and the growing share of regulated open-ended funds, the report published by IOSCO on 1 February 2018 aims to supplement the standards published in 2013 on liquidity risk management, taking into account the January 2017 recommendations of the Financial Stability Board (FSB). These documents strengthen the overall framework for liquidity risk management tools, while giving the national authorities broad discretion to select the tools that are made available to operators.

Against this backdrop, in early 2017 the AMF authorised the use of redemption gates and also published an instructional guide on stress tests. Additional regulatory changes will take effect in the coming weeks. The industry has been awaiting these changes, which will further

expand the range of tools available to French funds. The framework applicable to the following tools will be clarified:

- the establishment of subscription and/or redemption notice periods, which give fund managers more flexibility to execute orders on certain markets that might be less liquid (for example, the small-cap or high-yield bond markets) and therefore prevent portfolio distortion, in the interest of the fund's unit-holders or shareholders;
- redemptions in kind, i.e. directly in portfolio assets, when certain professional investors request them and certain conditions are met; and
- the full or partial closing of subscriptions (soft or hard close), for example when a fund becomes too big for its reference market.

The funds affected by the update to the regulatory framework for liquidity risk management are as follows: UCITS, retail investment funds, funds of alternative funds, professional investment funds and employee investment undertakings.

The AMF invites management companies to consider whether it would be appropriate, based on the strategies implemented and the underlying markets, to adapt their tools or develop new liquidity risk management tools, in line with the proposed strengthening of the framework. In particular, the supervisory body invites management companies to consider the option of introducing, in the regulatory documents for certain funds, the ability to use redemption gates to facilitate the management of liquidity crises in the best interest of unit-holders or shareholders.

#### About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, providing investors with adequate information and supervising the orderly operation of markets. Visit our website [www.amf-france.org](http://www.amf-france.org).

#### Press contact:

AMF Communication Directorate - Stéphanie Duschenes - Tel: +33 (0)1 5345 6023 or +33 (0)1 5345 6028



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Legal information:

Head of publications: The Executive Director of AMF Communication Directorate. Contact:

Communication Directorate – Autorité des marchés financiers 17 place de la Bourse – 75082 Paris  
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