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Investment funds' liquidity risk management tools: the AMF amends its General Regulation and updates its policy

As announced in early March, the Autorité des marchés financiers (AMF) continues its efforts to update the French framework for liquidity risk management. The AMF amends its General Regulation and its policy to clarify the framework applicable to three tools in particular: subscription and/or redemption notice periods, redemptions in kind and the full or partial closing of subscriptions.

The context

In recent years, international bodies have strengthened 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, the AMF is updating the French framework for investment funds' liquidity risk management tools. In 2017 the AMF authorised the use of redemption gates and also published an instructional guide on stress tests. In 2018, it is clarifying the framework for certain tools.

Clarification of the framework applicable to three tools

The AMF amends its General Regulation and its policy to clarify the framework applicable to three liquidity risk management tools. The tools concerned by these modifications are as follows:

- 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.

Scope of the clarification

The funds in the scope of this update to the regulatory framework for liquidity risk management are as follows: UCITS, retail investment funds (RIF), funds of alternative funds (FAF), professional investment funds (PIF) and employee investment undertakings (EIU).

Timetable

The AMF draws French asset management companies' attention to the fact that they have until 30 June 2019 to comply with the new rules, especially when these involve updating regulatory documents (prospectus, fund rules and/or articles of incorporation).

Reference texts

List of amended Articles of the General Regulation

The decree of 13 April 2018 approving the amendments to the AMF General Regulation was published in the Official Journal of 21 April 2018.

	UCITS	RIF, FAF and PIF	EIU
Subscription notice periods	411-20-2	422-21-2 (RIF), 422-250 (FAF) and 423-1 (PIF)	-
Redemption in kind	411-20, 411-23 and 411-40	422-21, 422-25 (RIF, FAF, PIF) and 422-39 (RIF, FAF, PIF)	422-21, 422-25 and 422-39
Closing of subscriptions	411-20	422-21 (RIF), 422-250 (FAF) and 423-1 (PIF)	Applicable to EIU by reference to Article 424-1

List of amended policy documents

	UCITS	RIF, FAF and PIF	EIU
Instruction	DOC-2011-19	DOC-2011-20	DOC-2011-21
Standard template for the prospectus	Annex XIV	Annex XIV	-
Standard fund rules	Annex XV	Annex XV	Annexes XIII and XIIIb
Standard articles of incorporation	Annex XVI	Annex XVI	Annex XIV

Read more

AMF Instruction DOC-2011-19: Authorisation procedures, preparation of a KIID and a prospectus and periodic reporting for French and foreign UCITS marketed in France

AMF Instruction DOC-2011-20: Authorisation processes, preparation of a KIID and a prospectus and periodic reporting for retail investment funds, funds of alternative funds and professional retail investment funds

AMF Instruction DOC-2011-21: Authorisation procedures, preparation of a KIID and a prospectus, and reporting for employee investment undertakings

📄 Book IV of the AMF General Regulation

AMF news release of 6 March 2018 on clarification of the framework applicable to

📄 investment funds' liquidity risk management tools

Setting up redemption gates mechanisms: the AMF publishes a new instruction

📄 and adjusts its existing policy

📄 Instructional guide on stress tests

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