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The AMF releases a study on liquidity management tools and their implementation in French funds

Over the past few years, international organizations have raised their expectations concerning investment funds' liquidity risk management, and have advocated for the availability of LMTs in each jurisdiction. In 2017 and 2018, the AMF introduced the possibility for all funds to implement gates and clarified the regulatory framework governing other types of LMTs, thus complementing the scope of available instruments. The released study, the product of combined work by the AMF & the Banque de France, first describes the different tools authorized under the existing regulatory framework in France. Secondly, the study checks which tools are actually available to fund managers, thanks to an original textual analysis computer program which was run, scanning about 9,800 prospectuses.

Overview of the liquidity management tools

In 2017 and 2018, the AMF modified its General Regulation and updated its policy to modernize the French framework for liquidity risk management in the asset management industry, in order to take into account the recommendations issued by the International Organization of Securities Commissioners (IOSCO) and by the Financial Stability Board (FSB). This article, written jointly with the Banque de France, describes the existing framework and lists the tools made available to asset managers in order to help them face redemption requests while ensuring fair treatment of fund-share holders.

Among these tools are to be found in particular:

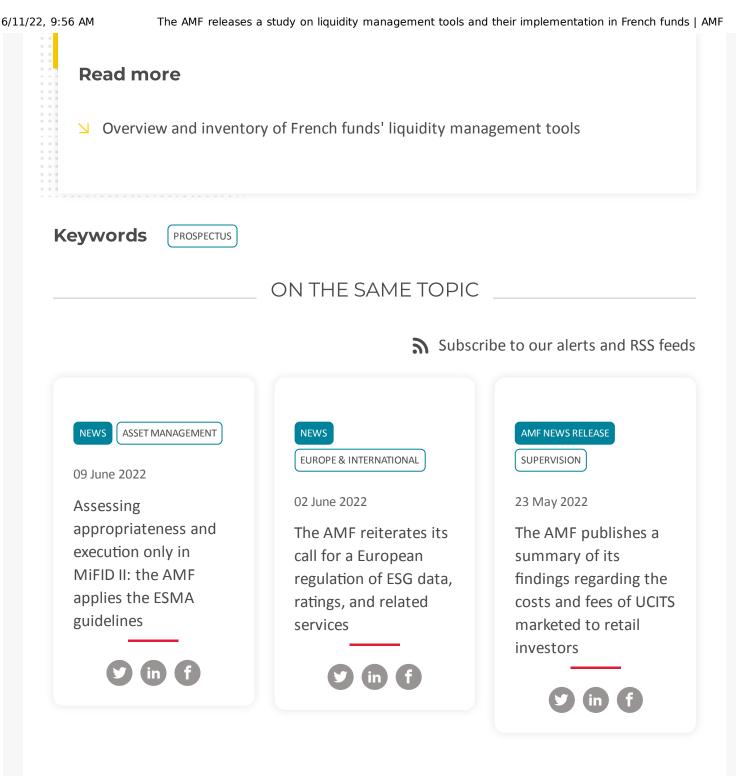
- swing pricing mechanisms, which aim at limiting the first mover advantage by making sure the investor who enters/exits the fund supports the cost of liquidity;
- redemption notices, which provide fund managers with additional time to gather the cash needed to pay redemptions;
- side pockets, which enable managers to isolate into a dedicated fund certain assets which become particularly illiquid or hard to value when a given market segment deteriorates ;
- gates.

Analysis of prospectuses

The AMF and the Banque de France jointly developed an automated textual analysis method to extract information from prospectuses. Building on key words, this method provides the first quantitative estimate of the actual indication of LMTs in the prospectuses, and therefore their declaration to investors). The inventory of these tools was realized over a population of about 9,800 French funds.

Among the main conclusions, it appears that, as at 31/12/2019:

- 71 % of prospectuses (representing a total net asset of 82% of French funds) indicated the possibility to suspend redemptions;
- 14 % of French funds (in terms of total net assets) mentioned at least one of the three main liquidity management tools in their prospectus: anti-dilution levies concerned less than 2% of French funds total net assets, while gates concerned 9% and swing pricing 6%).
- Prospectuses of UCITS mentioned these LMTs more often than those of AIFs;
- Anti-dilution levies were mentioned more by equity funds (7% of the total net assets) than by other types of funds;
- Gates are introduced more often in funds that are considered less liquid, (e.g. real estate funds where these concern 19% of the total net assets);
- Swing pricing is particularly indicated in bond funds' prospectuses (19% of total net assets).



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