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By Email : LMTGuidanceConsultation@IOSCO.org

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Subject : Public Comment on LMT Guidance - Consultation Report

Dear Mr Shanahan

AMIC welcomes the co-ordinated engagement of IOSCO and FSB and is pleased to respond to the Consultation Report on Anti-dilution Liquidity Management Tools (LMTs) – Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes.

The ICMA Asset Management and Investors Council (**AMIC**) is a dedicated forum to represent the views of and add value to ICMA's buy-side members by discussing investment issues of common interest, reaching a consensus and recommending any action that ICMA should take. ICMA's buy-side members include asset managers, institutional investors, private banks, pensions funds and insurance companies, among others. One of the few trade associations globally that includes both buy-side and sell-side representation, ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels and Hong Kong, serving around 620 member firms in 66 jurisdictions. It provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and fintech. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets.

In respect of this Consultation, we would highlight that Asset managers have a fiduciary duty to treat all investors fairly and having a liquidity risk management framework in place is part of this responsibility. Therefore, we support in particular the promotion by IOSCO of anti-

dilution LMTs as part of that framework in order that the estimated cost of liquidity associated with redemptions may be passed to the redeeming investors, not disadvantaging the remaining investors.

Proposed Guidance 1 – Overall Framework for the Design and Use of Anti-Dilution LMTs

We suggest that the proposed Guidance 1 should be clarified as follows to cover the issue of first mover advantage more widely:

“Responsible entities should have appropriate internal systems, procedures and controls in place at all times in compliance with applicable regulatory requirements for the design and use of Anti-Dilution LMTs as part of the everyday liquidity risk management of their OEFs to mitigate investor dilution and *associated* potential first mover advantage. ~~arising from structural liquidity mismatch in OEFs.~~”

Proposed Guidance 2 – Types of Anti-Dilution LMTs

AMIC supports investment managers having a choice of the suggested five LMTs. AMIC’s view is that the Investment Manager/Fund Boards are best placed to take the decision regarding the most appropriate LMT taking into consideration the fund and the jurisdiction. While our members are strong proponents of swing pricing in the EU for the majority of open-ended funds, they also recognise that there are fundamental infrastructure issues in other jurisdictions which could prevent swing pricing from being introduced and therefore other types of price-based tools are likely to be more appropriate for those jurisdictions.

Regarding potential first mover advantage, Anti-dilution mechanisms, if properly designed and implemented, should address potential first mover advantage considered at the level of the funds. However, more broadly, investor trading is part of price discovery and price readjustment in volatile markets. The role of the proposals should not be to seek to create rigid price stability.

Proposed Guidance 3 – Calibration of Liquidity Costs.

Anti-dilution LMTs used by responsible entities should impose on subscribing and redeeming investors the estimated cost of liquidity, i.e., explicit and implicit transaction costs of subscriptions and redemptions, including any significant market impact of asset purchases or sales to meet those subscriptions or redemptions.

The cost of liquidity depends on a number of factors including the instruments in which funds invest, the strategy and structure of the funds and the jurisdictions in which the fund operates and therefore it is unlikely that a more consistent approach to calibrating anti-dilution LMTs for similar funds can be established. However, the Consultation Report recommends that the

anti-dilution LMTs should be calibrated to impose the estimate cost of liquidity on subscribing and redeeming investors and this estimated cost of liquidity should include explicit and implicit transaction costs incurred by the fund to buy/sell a pro-rate slice of all assets in the portfolio and be appropriate in during both normal and stressed market conditions.

AMIC has prepared analysis that suggests that traded volumes alone do not provide a complete overview about market liquidity, and that during times of stress or heightened volatility the cost of trading can increase, even if observed volumes are higher. Bid-ask spreads are perhaps a better gauge of liquidity than volumes, and when these widen significantly it may be appropriate for funds to utilize relevant LMTs.

As per below study (see Annex 1), we observe weak correlation coefficients between bid-ask spreads and volumes, and therefore we are unable to accept the hypothesis that transaction costs and market depth are related. In some cases, the charts show rises in bid-ask spreads whilst volumes remain constant, and vice versa. Currently, data relating to trading volumes can be challenging to source and prone to inaccuracies and therefore are an unreliable measure of liquidity. Bid-ask spreads, whilst also an imperfect metric, are potentially a more reliable gauge of market liquidity.

Given the range of factors that contribute to market impact, including significant market impact, in the calibration of liquidity costs will be difficult to measure in a precise and consistent manner and asset managers should include it on a best-efforts basis.

AMIC questions whether Open Ended Fund liquidity demands affect financial markets and constitute systemic risk in “normal” as well as “stressed” market conditions and call for more investigation on this point. Normal and stressed market conditions are difficult to define and capture as they will depend on many circumstances that cannot be encapsulated in a rigid definition. The aim of good regulation should be to allow for different styles, understandings and approaches of the various market participants while noting circumstances that could contribute to market stress.

Proposed Guidance 5 : Governance

Responsible entities should have adequate and appropriate governance arrangements in place for their liquidity risk management processes, including clear decision-making processes for the use of anti-dilution LMTs.

We agree that liquidity risk management requires strong governance and oversight of the use of Anti-Dilution LMTs. However, given the differing structures of funds and investment managers, the design of governance, whether by Committee, Senior Management or Board, should be left to the discretion of management companies.

Section IV – Disclosure to Investors about the Use of Anti-Dilution LMTs

Element V – Disclosure to Investors

Proposed Guidance 6 : Responsible entities should publish clear disclosures of the objectives and operation (including design and use) of anti-dilution LMTs to improve awareness among investors and enable them to better incorporate the cost of liquidity into their investment decisions and mitigate potential adverse trigger effects.

AMIC agrees that the objectives, mechanism, availability and use of Anti- Dilution LMTs should be clearly set out in the fund prospectus. However, transparency should not extend to the disclosure of the details regarding the calibration of the Anti-Dilution LMTs and thresholds for use as this could lead to sophisticated investors being able to “game the system” and circumvent the Anti-Dilution LMT.

Yours sincerely

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Annex 1

Introduction and methodology

In this overview we analyse the relationship between traded volumes for EU top five sovereign markets and the 10Y Bid – Ask Spread.

Data on traded volumes was obtained using “propellant.digital”. BA spread data was obtained using Bloomberg.

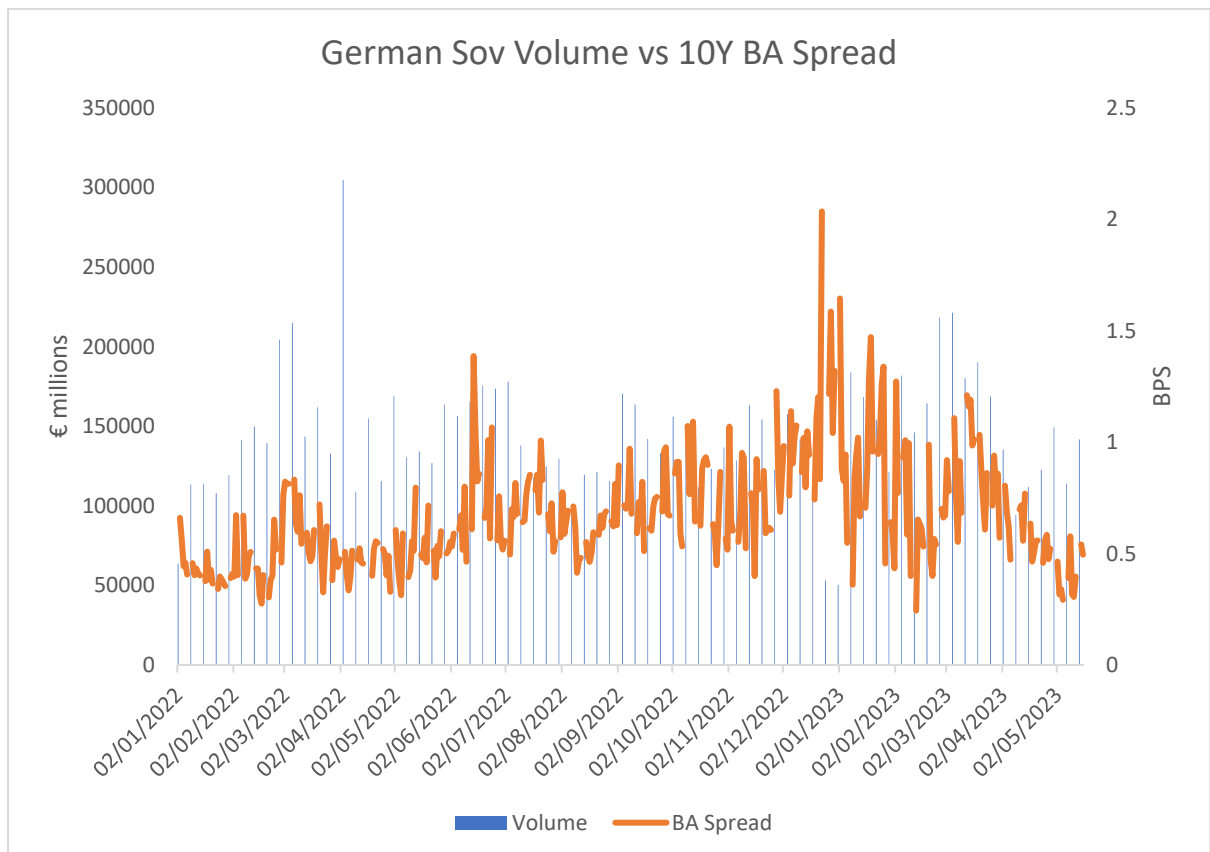
To begin, we plot total traded notional for all securities issued by each country against the 10Y BA Spread. Correlation is calculated on a weekly basis using the total weekly traded notional and the average BA spread for the week.

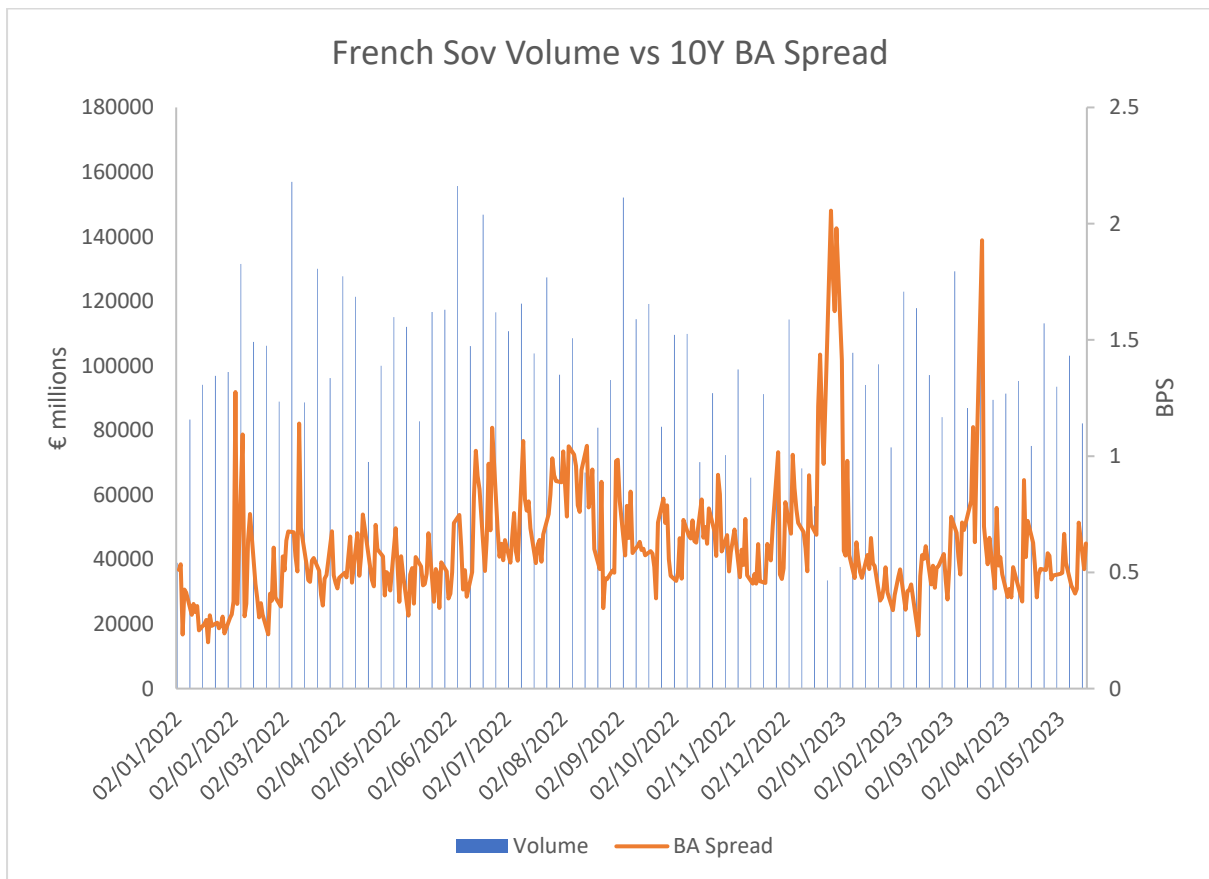
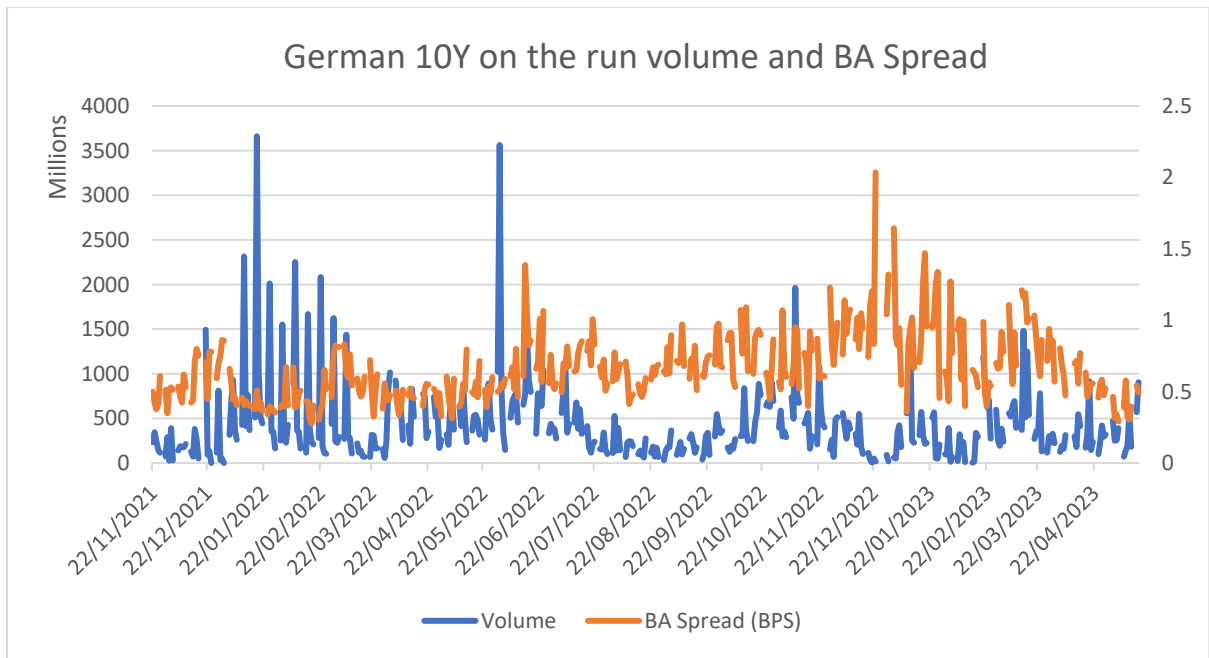
We follow with a second approach and plot the 10Y on the run volume only against the 10Y BA Spread. In this case, correlation is calculated using daily observations.

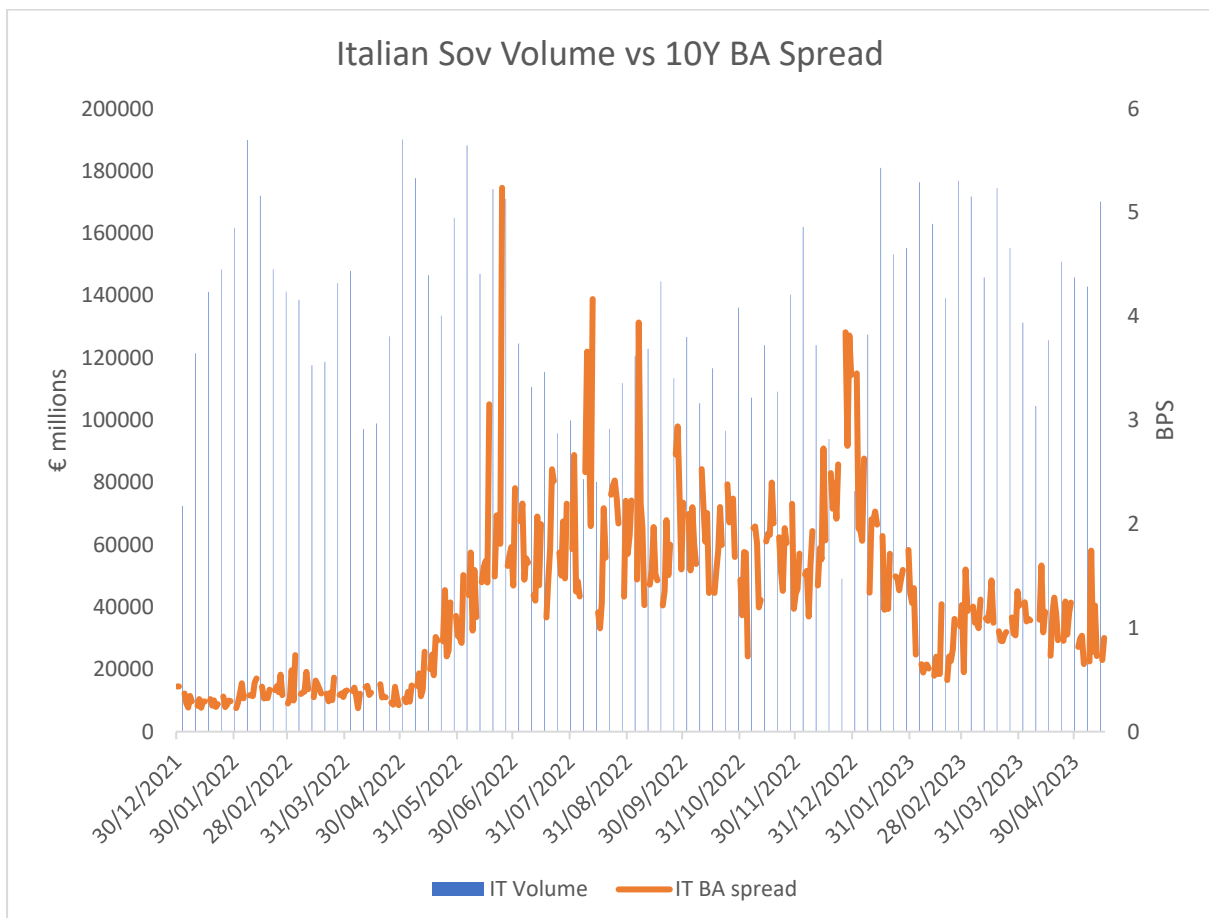
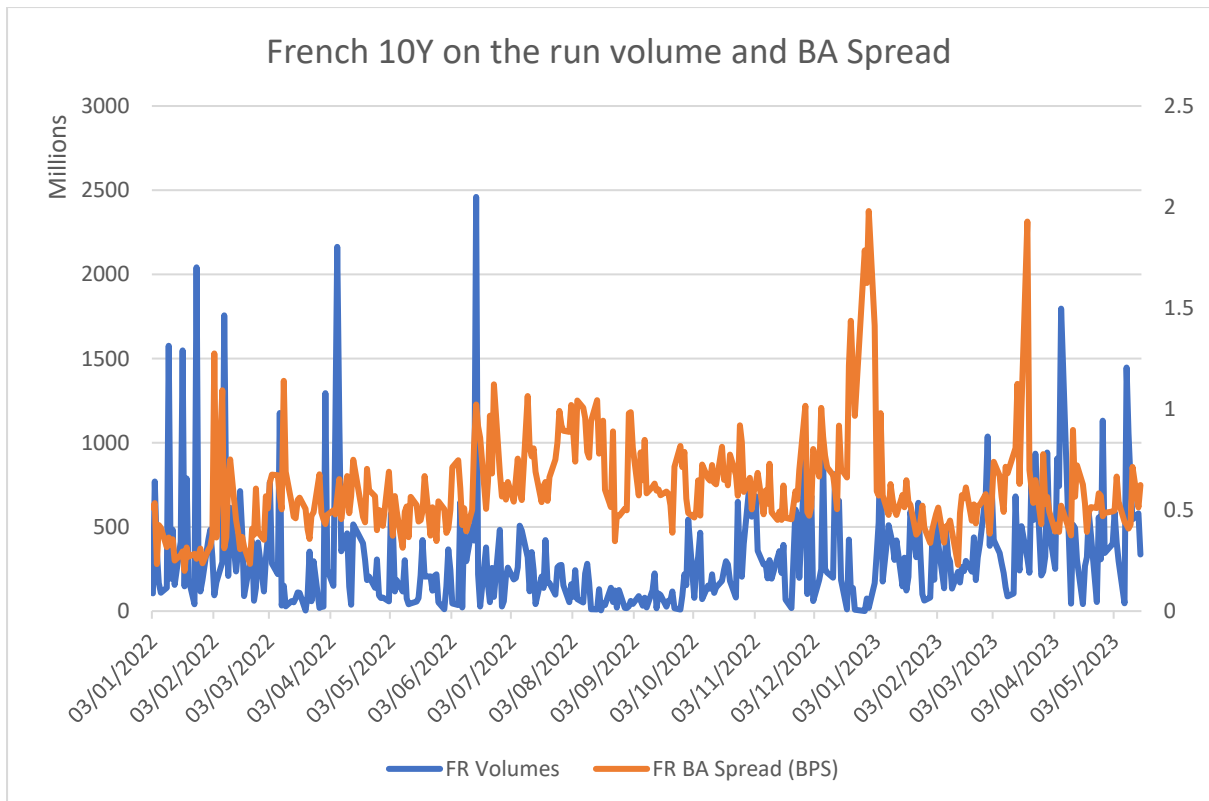
Lastly, we provide some summary statistics on 5 years of BA spread data.

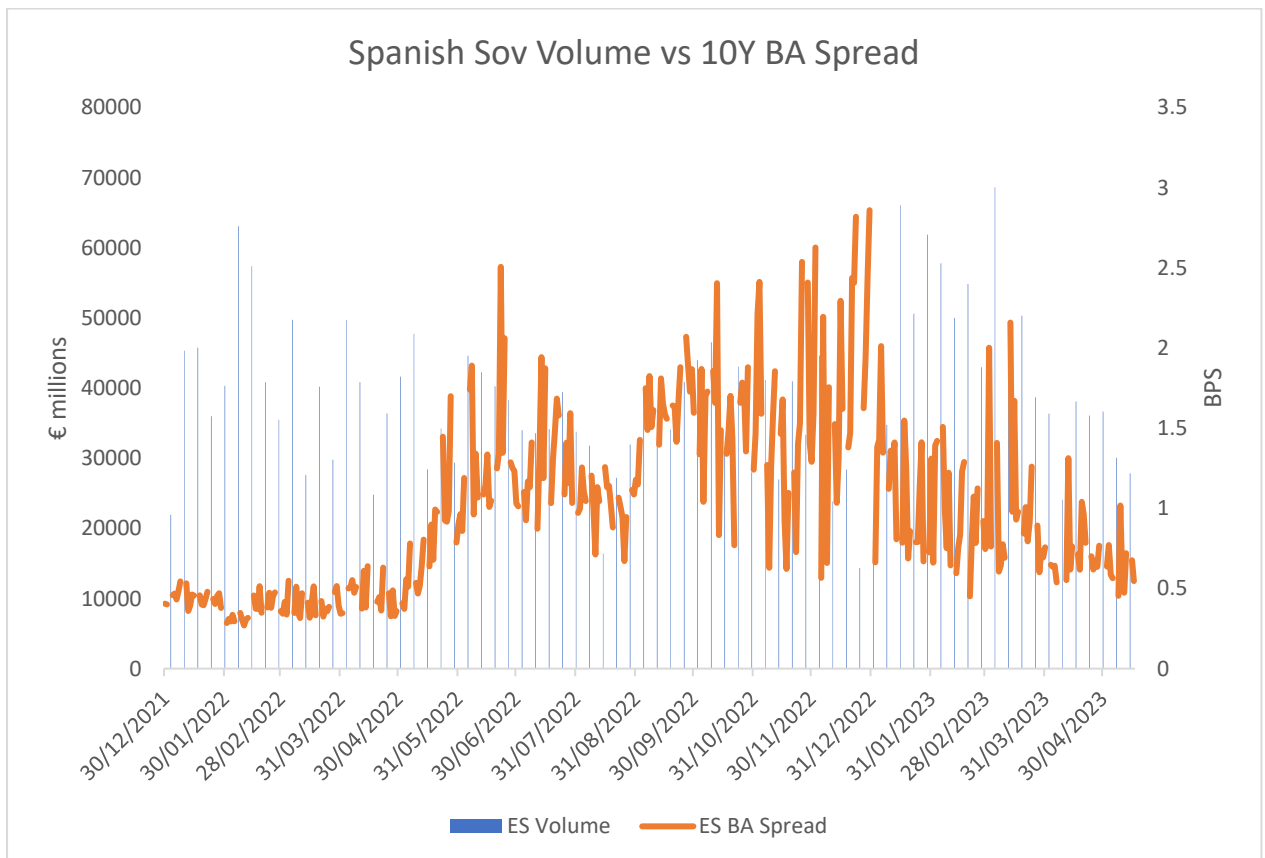
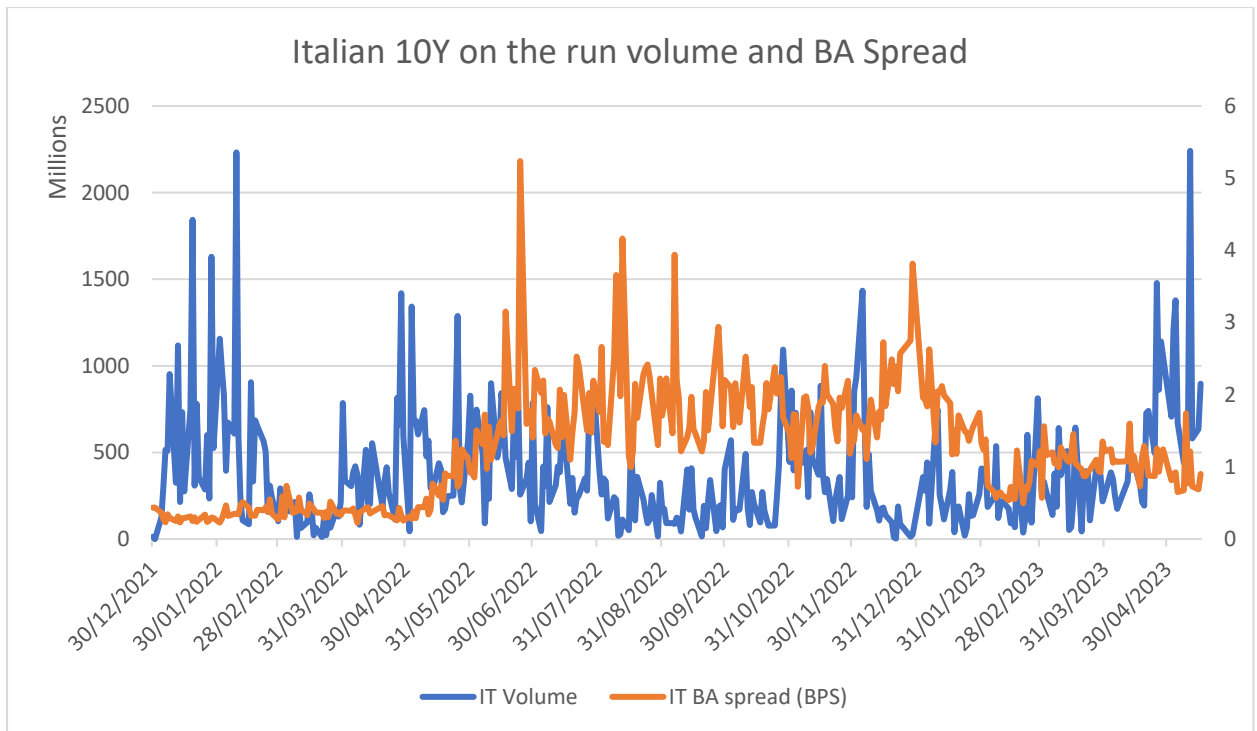
Volume - BA Spread

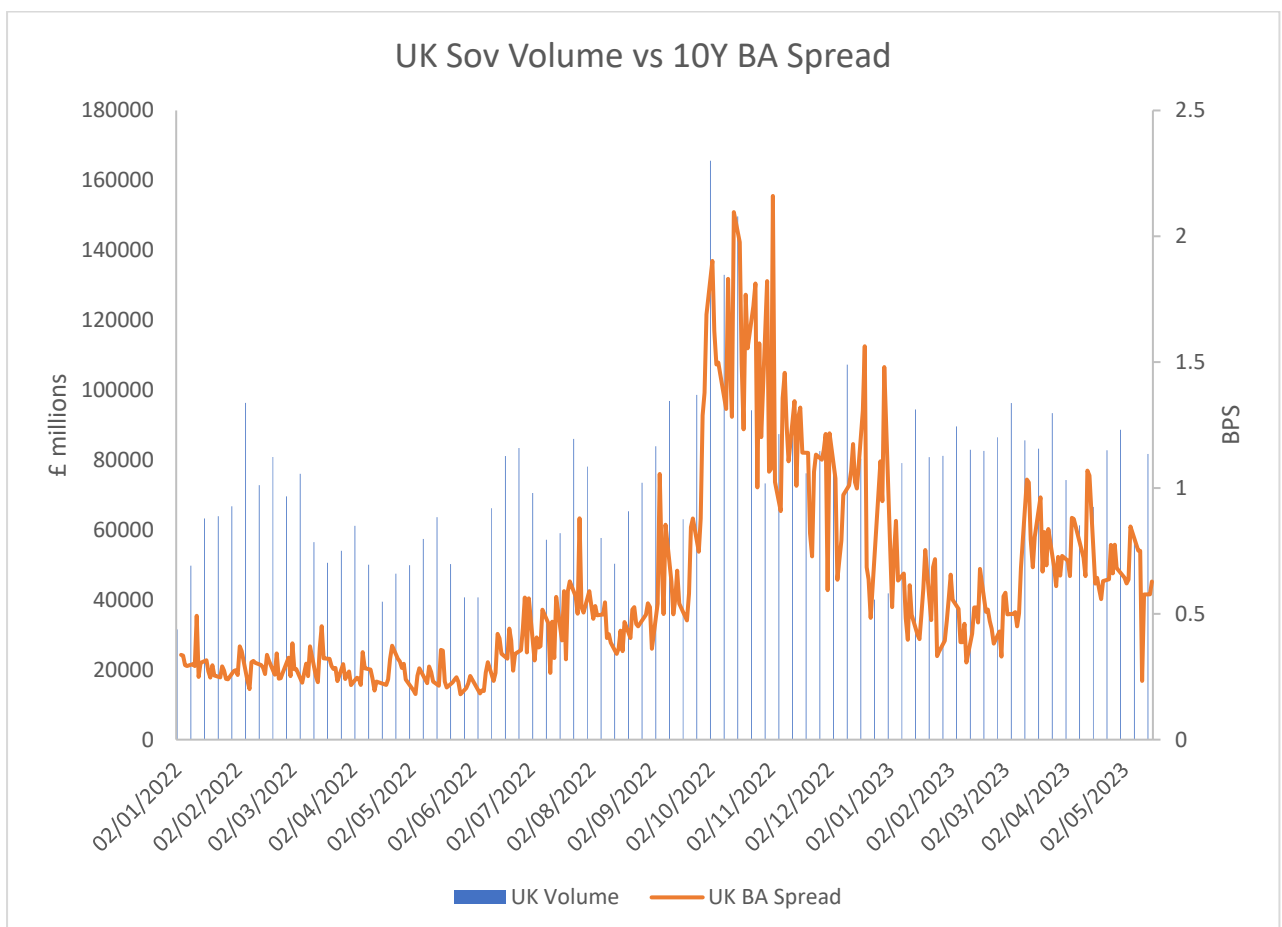
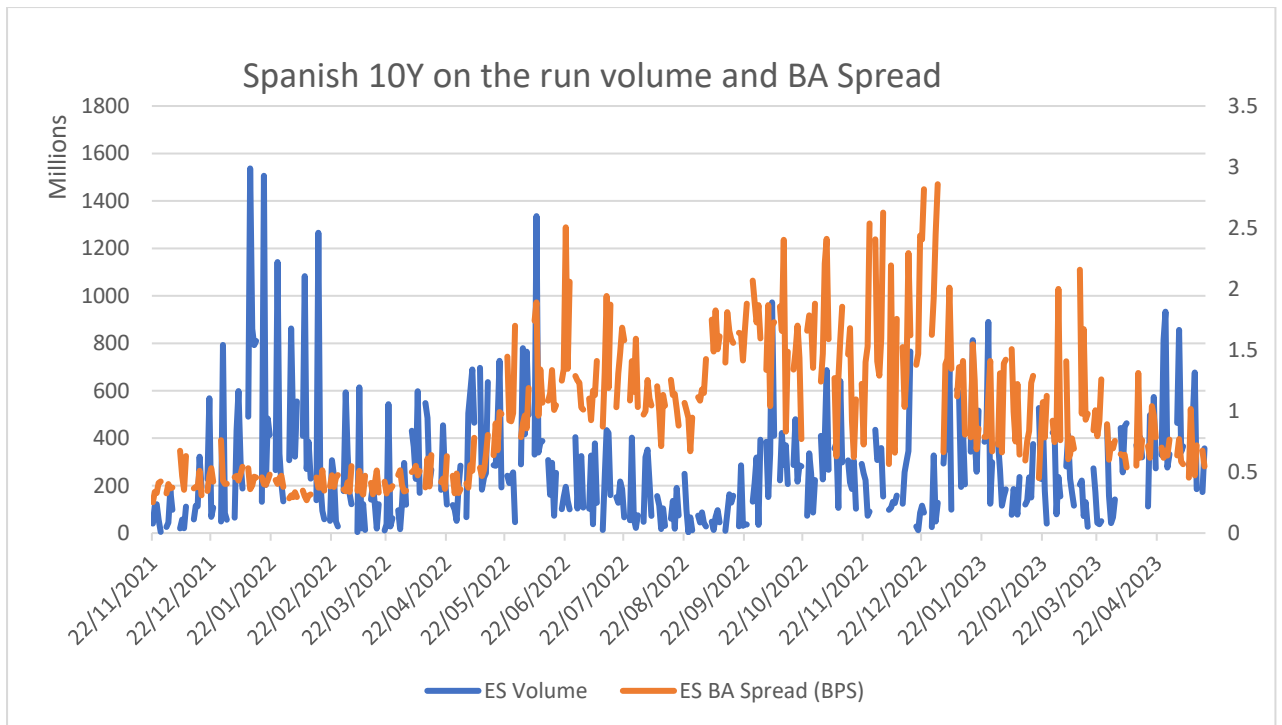
Corr Coeff	Germany	France	Italy	Spain	UK
Total Vol	-0.027	-0.1546	-0.3488	-0.1956	0.6056
OTR Vol	-0.099	-0.1341	-0.2105	-0.1055	-0.1792

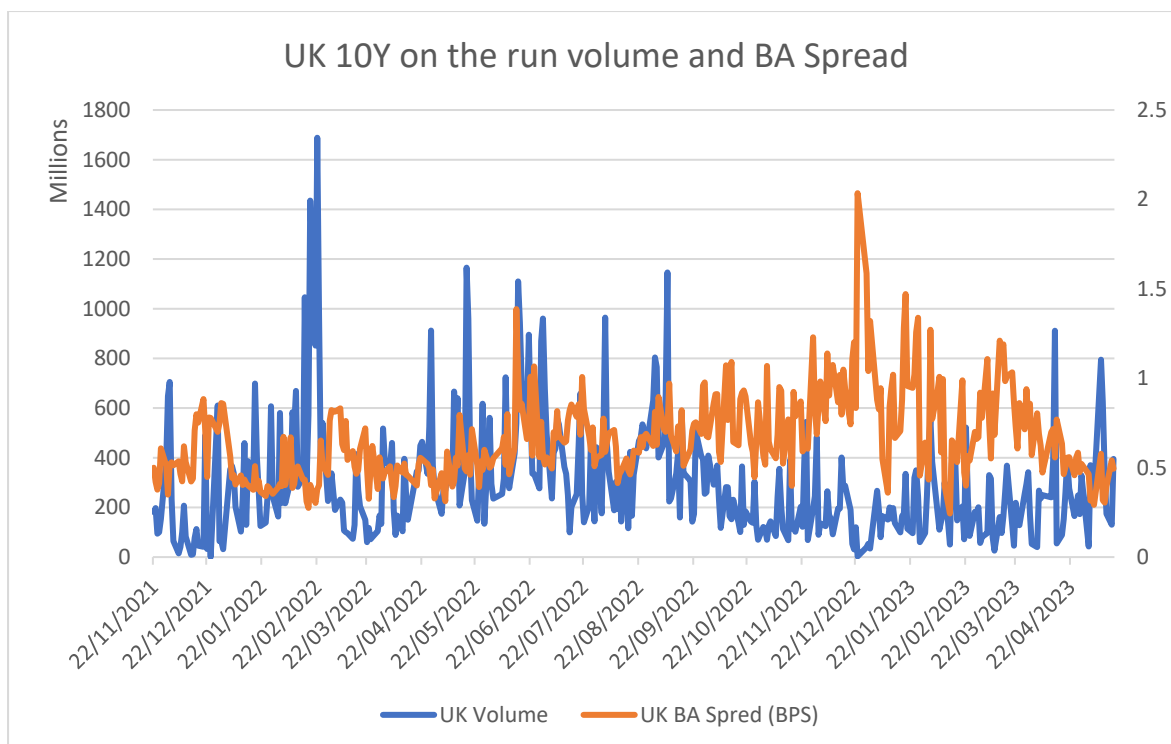






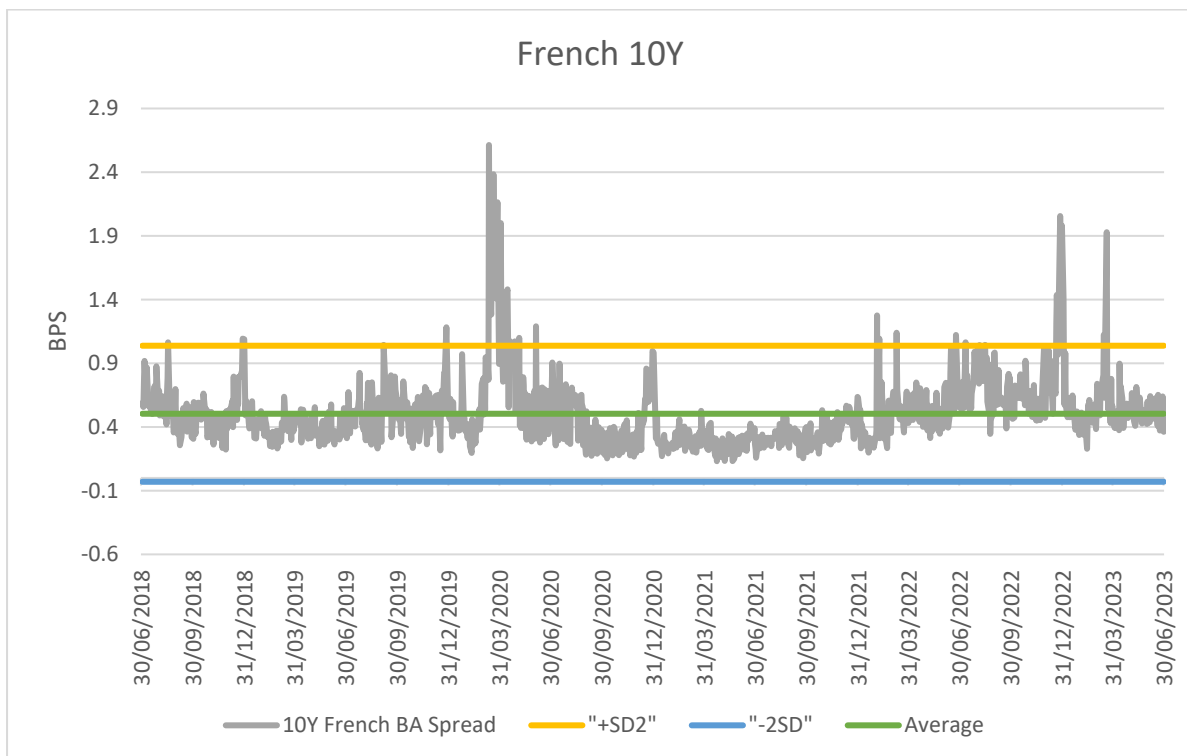
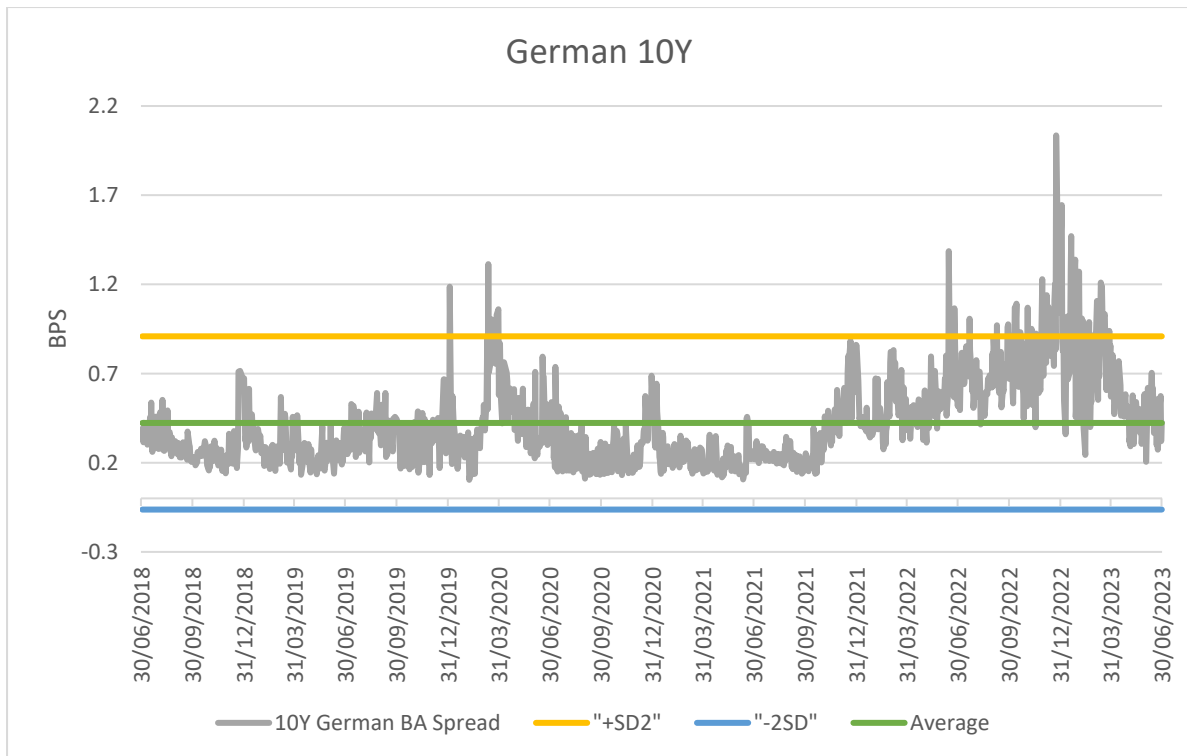


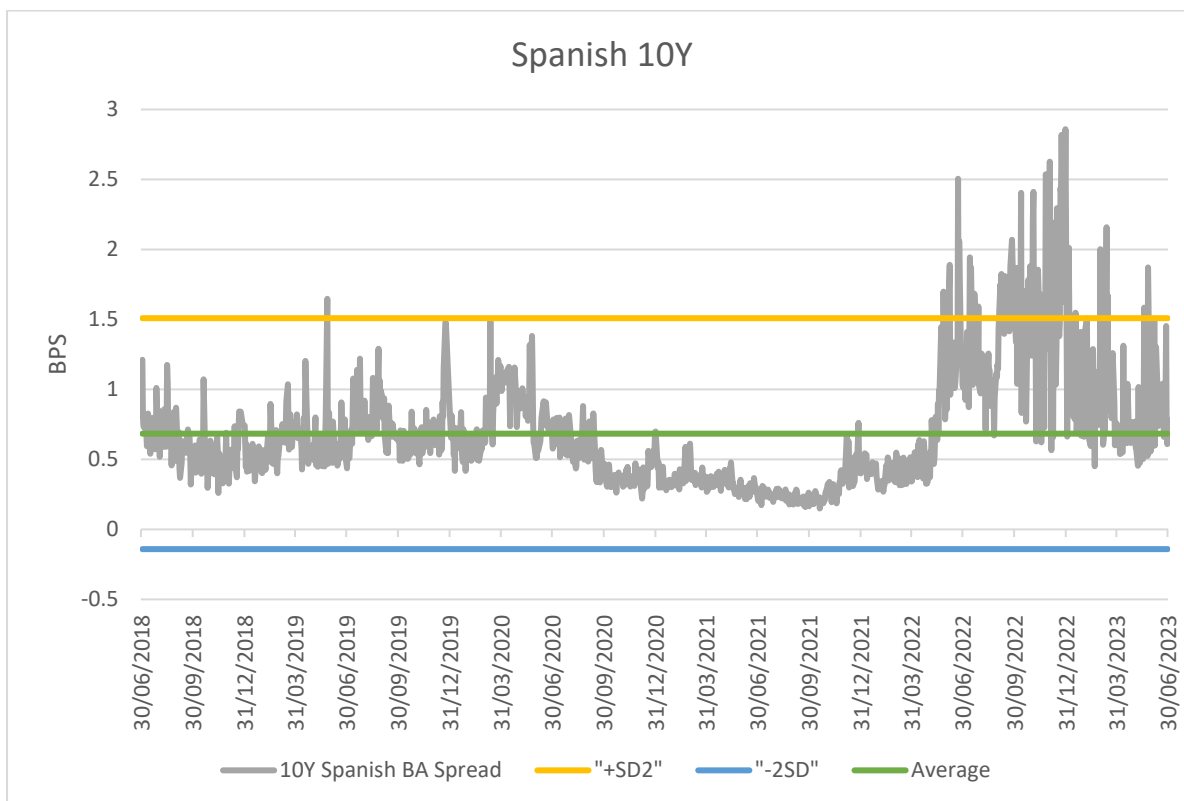
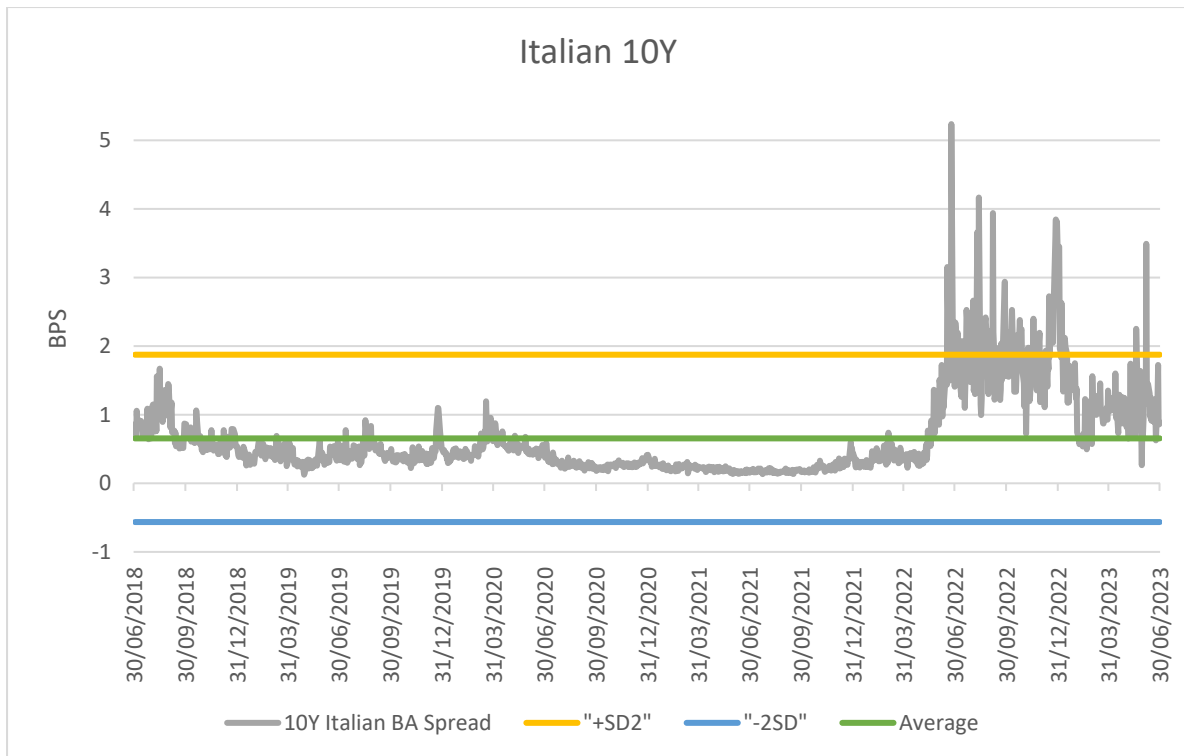


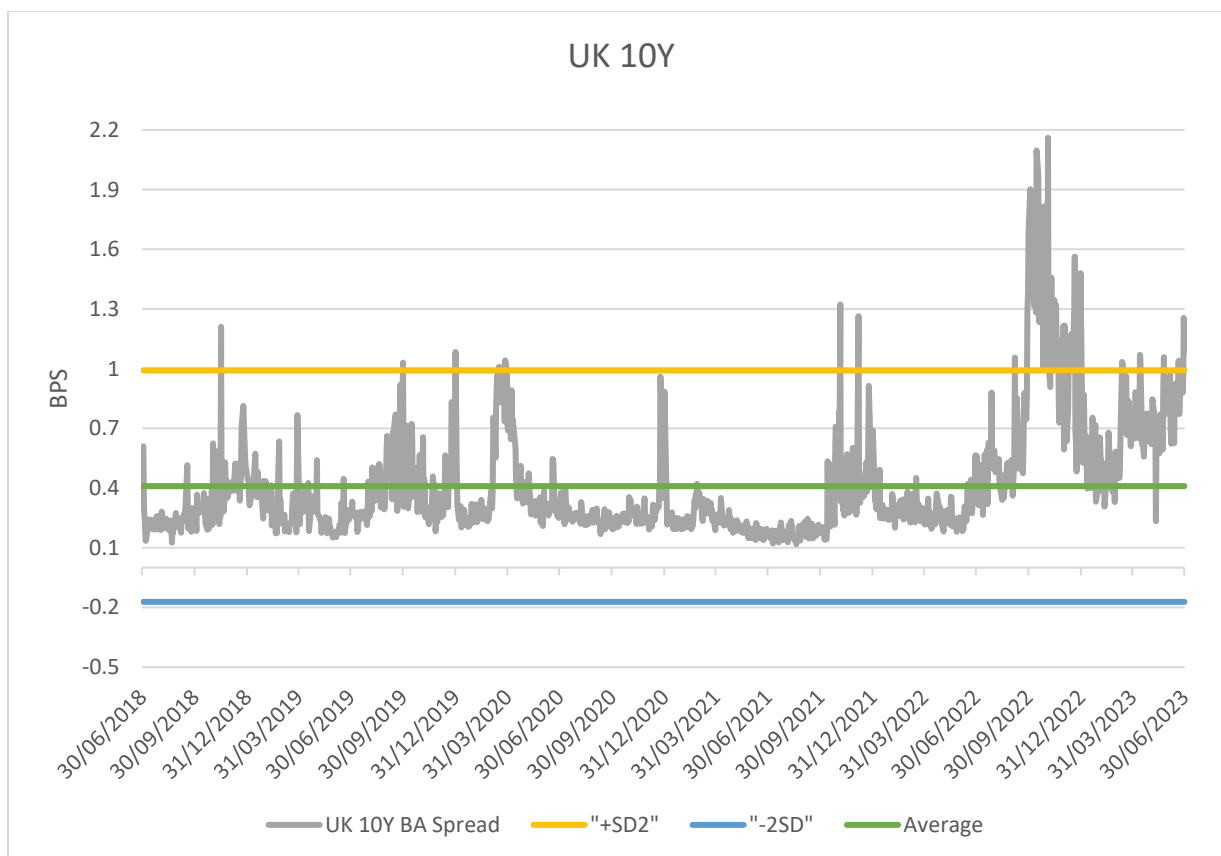


BA Spread Data summary statistics

BA Spread	Average	Median	SD
Germany	0.423	0.359	0.243
France	0.504	0.458	0.267
Italy	0.655	0.425	0.610
Spain	0.684	0.589	0.412
UK	0.410	0.302	0.291







Conclusion of the Annexed Study:

As per above tables, we observe weak correlation coefficients between bid-ask spreads and volumes, and therefore we are unable to accept the hypothesis that transaction costs and market depth are related. In some cases, the above charts show rises in bid-ask spreads whilst volumes remain constant, and vice versa. At present time, data relating to trading volumes can be challenging to source and prone to inaccuracies - and accordingly an unreliable measure of liquidity. Meanwhile, bid-ask spreads, whilst also an imperfect metric, are potentially a more reliable gauge of market liquidity. This preliminary observation suggests further research should be carried to better assess transaction costs impacts on liquidity.