

4 September 2023

Mr. Klass Knot, Chair of the Financial Stability Board ("FSB")  
President, De Nederlandsche Bank

Secretariat to the Financial Stability Board  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland

By email: [fsb@fsb.org](mailto:fsb@fsb.org)

Dear Mr Knot,

**Re: Federated Hermes response to the Consultation report, "Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revisions to the FSB's 2017 Policy Recommendations" published 5 July 2023**

We are writing to you on behalf of Federated Hermes Ltd, its parent company, Federated Hermes Inc and their subsidiaries ("Federated Hermes"). In respect of the Consultation report, "Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revisions to the FSB's 2017 Policy Recommendations." (Consultation report).

Federated Hermes was founded in 1955 and is a global leader in active, responsible investment and is guided by the conviction that responsible investing is the best way to create long-term, sustainable wealth for our clients and their beneficiaries. Through our world-leading stewardship services, we engage companies on strategic and sustainability concerns to promote investors' long-term performance and fiduciary interests. Our goals are to help individuals invest and retire better, to help clients achieve better risk adjusted returns, and where possible, to contribute to positive outcomes in the wider world.

Federated Hermes supports good and meaningful regulation and shares your objective of the sound functioning of securities markets and financial stability. Given our support of the ICI Global response, we have limited our specific responses to those related to liquidity management tools (Recommendations 4, 5 & 8)

We would also like to state our endorsement of the comment letter submitted by the Investment Company Institute Global (“ICI Global”) to the consultation.

We are grateful for the opportunity to share our perspective. Our commitment is to continue collaborating with the FSB and all stakeholders to ensure the stability, integrity, and sound development of the global investment funds industry.

Yours sincerely,



Dennis F Gepp

Head of European Government Affairs

## Annex – Federated Hermes Responses to Questions for Consultation

### Liquidity management tools (Recommendations 4, 5 and 8)

**6. Do the proposed changes to Recommendations 4 and 5, when read together with the proposed IOSCO guidance on anti-dilution LMTs, help achieve greater use and a more consistent approach to the use of anti-dilution LMTs? If not, what changes should be proposed to the FSB Recommendations?**

Federated Hermes broadly supports the modifications to Recommendations 4 and 5. We believe these changes underline the importance of careful liquidity management and represent a forward step in promoting a more consistent approach to the use of anti-dilution LMTs across the industry.

We stress that the IOSCO is ideally placed to refine the details of such policy changes. Given their in-depth knowledge and global perspective, IOSCO members can ensure that the policies are effectively articulated with jurisdiction-specific requirements and contexts. We urge the FSB to incorporate flexibility in the implementation of Recommendations 4 and 5 and, in particular, imposition of anti-dilution LMTs. Different markets have distinct realities, and policies should be adaptable to accommodate these variations.

Most importantly the potential use of LMTs will vary according to fund type and the relevant circumstances. It is critical to leave the flexibility and decision-making to the board or fund manager, who is best placed to make such determination in accordance with their fiduciary duty.

**7. Are there any obstacles (either universal or jurisdiction specific) to the implementation of the revised FSB Recommendations on the use of anti-dilution LMTs? If yes, what additional recommendations or guidance would help address such obstacles?**

Any potential barriers or challenges to the effective implementation of the revised FSB Recommendations 4 and 5 are most likely to be at the jurisdictional or market level. Factors such as varying legal frameworks, different market structures, and diverse investor behaviours can impact the application of these recommendations.

Given this context, we firmly support the entrustment of the task of refining, defining, and designing implementation guidance to IOSCO. As a global standard setter, IOSCO has a deep understanding of the intricacies and nuances of different markets, making it well-equipped to address potential barriers in a manner that aligns with the specific circumstances of its member jurisdictions.

By working closely with IOSCO member jurisdictions, the guidance can be tailored to reflect local realities, thus ensuring a more effective and smoother implementation of the recommendations. This collaborative approach would also facilitate a global consensus on the use of anti-dilution LMTs, which is crucial for market stability and integrity.

Most importantly the potential use of LMTs will vary according to fund type and the relevant circumstances. It is critical to leave the flexibility and decision-making to the board or fund manager, who is best placed to make such determination in accordance with their fiduciary duty.

**8. Would additional recommendations or guidance be helpful in clarifying the expectation that OEF managers have internal systems, procedures and controls enabling them to use anti-dilution LMTs as part of the OEFs' day-to-day liquidity risk management?**

No. The objective should be to ensure that OEF managers are equipped with a framework that integrates anti-dilution LMTs into their daily liquidity risk management practices. Such guidance, however, should maintain a balance between providing clear expectations and allowing for the flexibility necessary to adapt to the unique dynamics of individual markets and funds.

What is critical in any FSB or IOSCO guidance, as the potential use of LMTs will vary according to fund type and the relevant circumstances, is to leave the flexibility and decision-making to the board or fund manager.

Federated Hermes believes that any further guidance should be crafted by IOSCO, in collaboration with its member jurisdictions. IOSCO, with its global purview and deep understanding of different market structures, is ideally placed to provide meaningful, tailored guidance that respects the distinct characteristics of each jurisdiction.

**9. Do you agree with applying anti-dilution LMTs to subscribing investors as well as to redeeming investors? If not, why?**

Yes, but as the potential use of LMTs will vary according to fund type and the relevant circumstances, it is critical to leave the flexibility and decision-making to the board or fund manager.

**10. Would additional international guidance on the availability and use of quantity-based LMTs be useful? If yes, what aspects should such guidance focus on? If not, why?**

No.

## Other FSB Recommendations

**11. Do the proposed changes to Recommendation 2, when read together with the proposed IOSCO guidance on disclosure to investors, help enhance disclosure to investors on the use of anti-dilution LMTs? If not, what changes should be proposed to the FSB Recommendations?**

Yes. We broadly support initiatives aimed at enhancing disclosure to investors. The investment fund industry is deeply committed to upholding high standards of transparency, and we believe that well-informed investors are essential for the efficient functioning of our markets.