



To [FSB@FSB.org](mailto:FSB@FSB.org)

“Revised OEF Recommendations”

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

By email

4<sup>th</sup> September 2023

AMIC welcomes the opportunity to respond via letter to points made in the Financial Stability Board’s Consultation Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revision to the FSB’s 2017 Policy Recommendations. AMIC welcomes the coordinated FSB & IOSCO consultations.

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.

## General

Before answering the details in the series of Questions raised by the FSB, we would like to stress that in recent reports issued on NBFIs during the last few years by the FSB, the “Archehos” case was often provided as an example of an “NBFI” which has failed. While we agree, we consider that a clear distinction should be made between non-regulated funds and asset managers vs. regulated funds and asset managers: while of course provisions and supervision applicable to any regulated sector can always be improved (being banks or non-banks), in terms of systemic risk the primary danger comes from the lack of information and monitoring by supervisors/regulators over financial activities. Any non-regulated entity consequently presents more systemic risks than regulated ones, as by construction, the absence of regulation of a given area leads to a potentially wider scope of unforeseen behaviours, less knowledge by regulators/supervisors, and ultimately less monitoring, enforcement (and sanctions).

## 2. Overview of proposed changes

### 2.1. Structural liquidity mismatch in open-ended funds

It is unclear what is meant by “Unmitigated structural liquidity mismatch may amplify shocks by driving ‘excess’ redemptions”. These may be a reaction to a market event. The focus should be on ensuring that those investing via funds are in the same position as direct investors in markets. If an investor is seeking to reallocate or rebalance their portfolio, whether investing directly or through a fund, the investor should be aware that they will bear the cost of accessing liquidity in the market.

## Questions

### Structural Liquidity Mismatch (Recommendation 3)

1. Should “normal” and “Stressed” market conditions be further described to facilitate the application of the bucketing approach?

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.

### Structural Liquidity Mismatch (Recommendation 3)

3. Is this use of specific thresholds an appropriate way to implement the bucketing approach?

AMIC is not supportive of funds being categorised into three main categories i.e. “bucketing”.

We are concerned that the bucketing approach is attempting to lock-in an essentially static view of liquidity. Liquidity risk management is a dynamic concept and therefore the rigid definitions that necessarily underpin a liquidity bucketing framework would not be appropriate.

Furthermore, given that market conditions impact the liquidity of traded assets, there is a risk that funds might move between buckets as well as a risk that funds with mixed portfolios of more and less liquid assets, such as bonds and equities, could fall into two buckets. It is also important to note that some funds are designed to hold illiquid investments.

We do not agree with extending the principle of bucketing at a global level. As some major jurisdictions have experienced, the implementation of such an approach is very challenging, and raises a series of practical difficulties on an ongoing basis (including about the boundaries to set between the different buckets, and how to adapt dynamically to the evolution of such boundaries). Considering the actual difficulties such an approach led to at some jurisdictions’ level, we are not in favour of extending that approach at cross-border and global levels.

### Liquidity Management Tools (Recommendations 4, 5 and 8)

6. Do the proposed changes in recommendation 4 and 5, when read together with the proposed IOSCO guidance on anti-dilution LMTs, help to achieve greater use and a more consistent approach to the use of anti-dilution LMTs?

AMIC agrees that by coordinating the FSB recommendations and the proposed IOSCO guidance, this is helpful to broaden awareness, understanding and raise standards connected with the use of anti-dilution of LMTs.

### 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?

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.

The following has been shared with IOSCO in response to its **Public Comment on LMT Guidance – Consultation report** and is also relevant to this response :

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.

Yours Faithfully

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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.

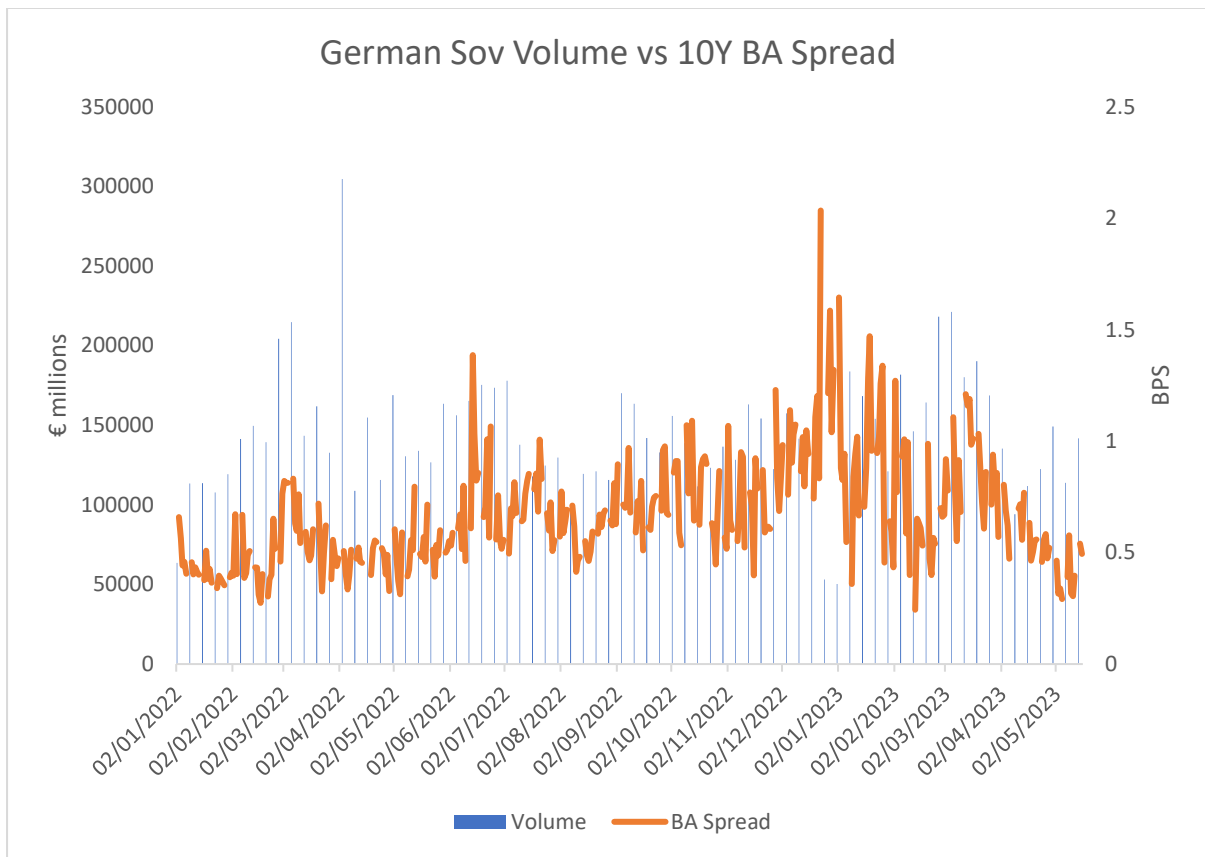
To begin, we plot total traded notional for all securities issued by each country against the 10Y BA Spread. Correlation is calculated on a weekly basis using the total weekly traded notional and the average BA spread for the week.

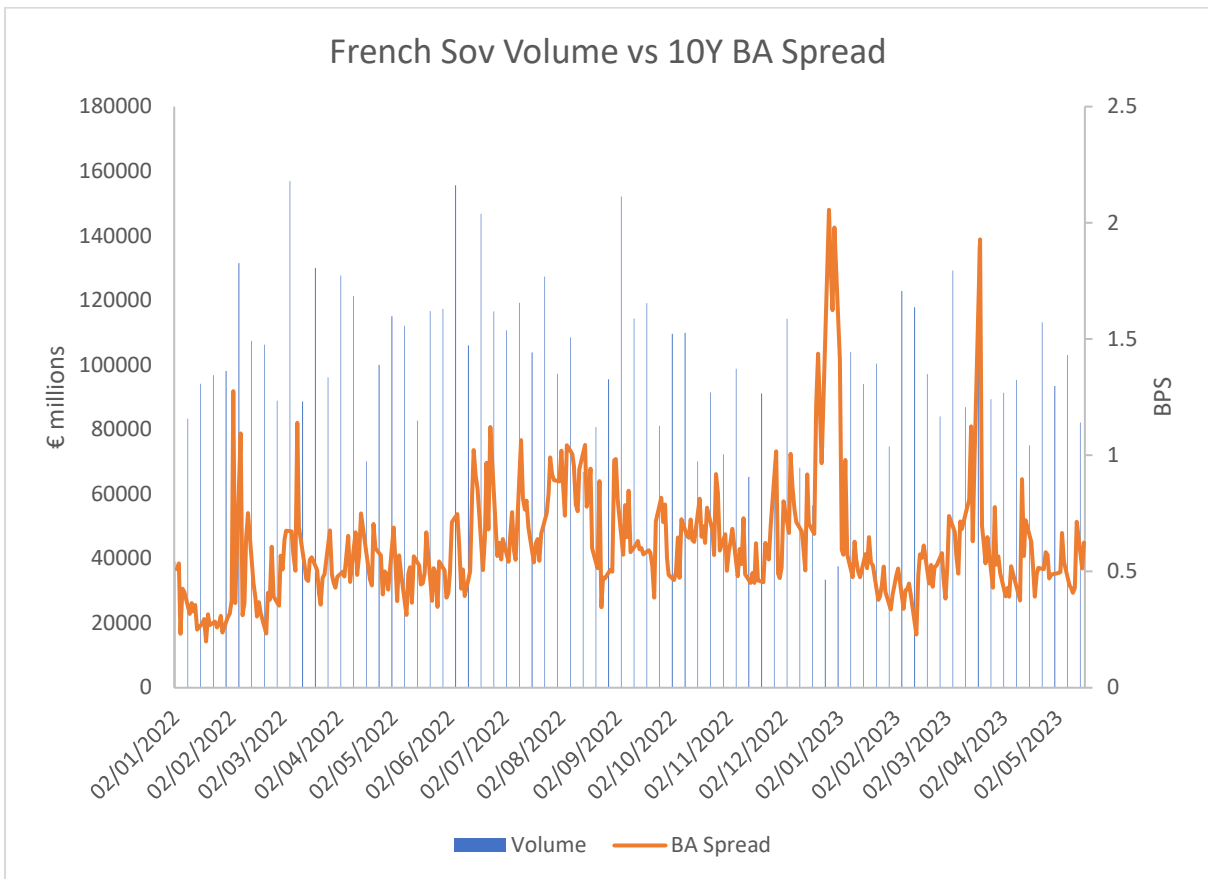
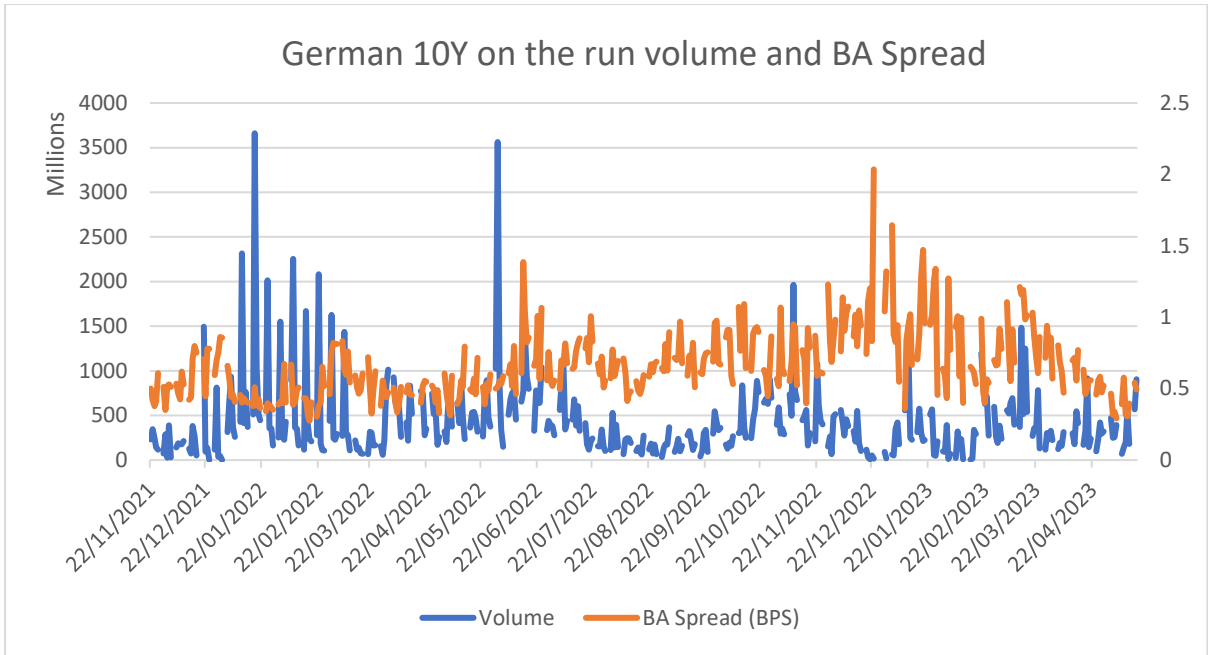
We follow with a second approach and plot the 10Y on the run volume only against the 10Y BA Spread. In this case, correlation is calculated using daily observations.

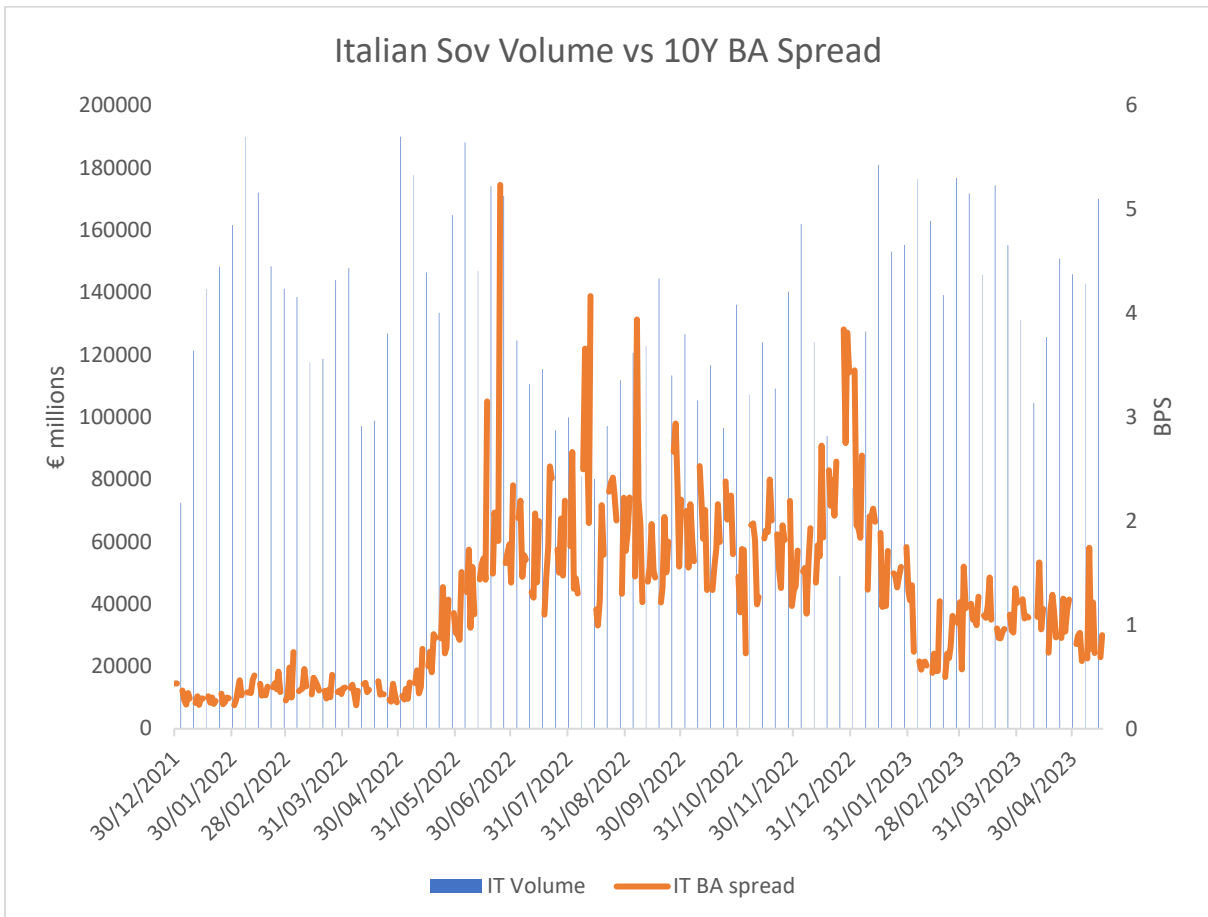
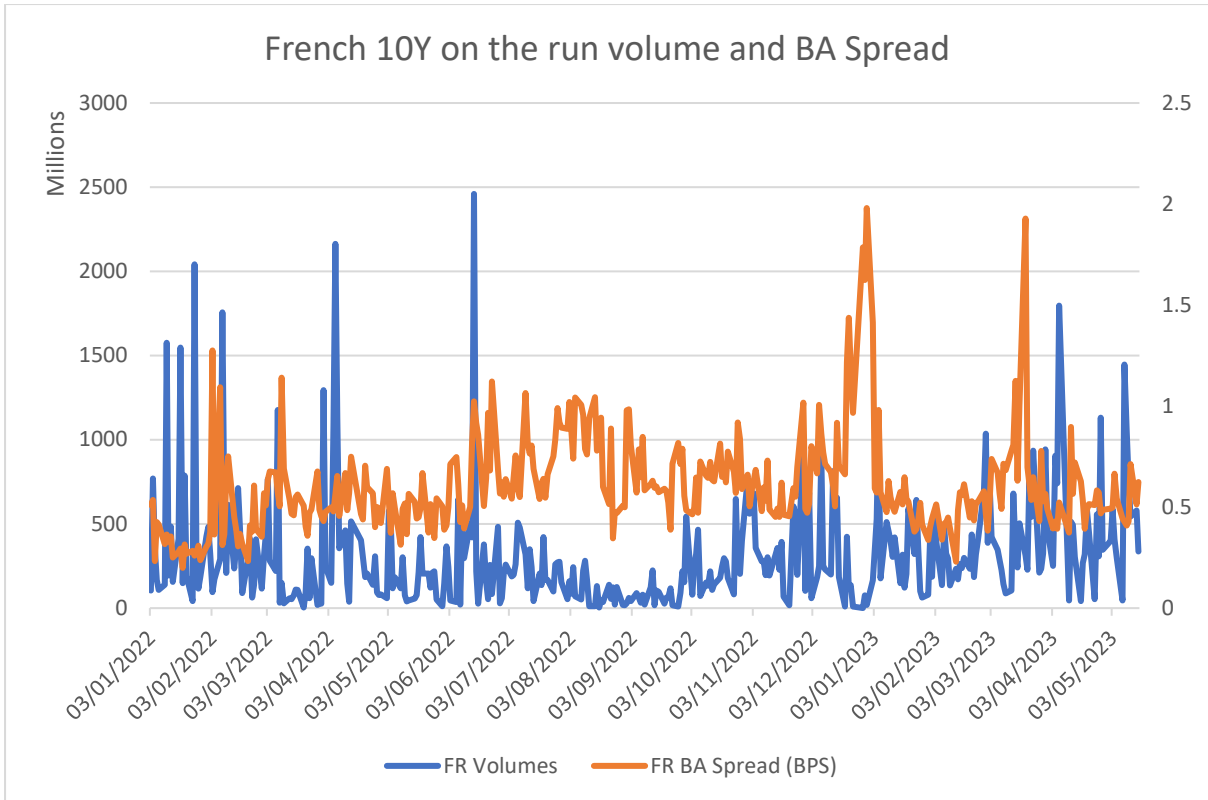
Finally, we provide some summary statistics on 5 years of BA spread data.

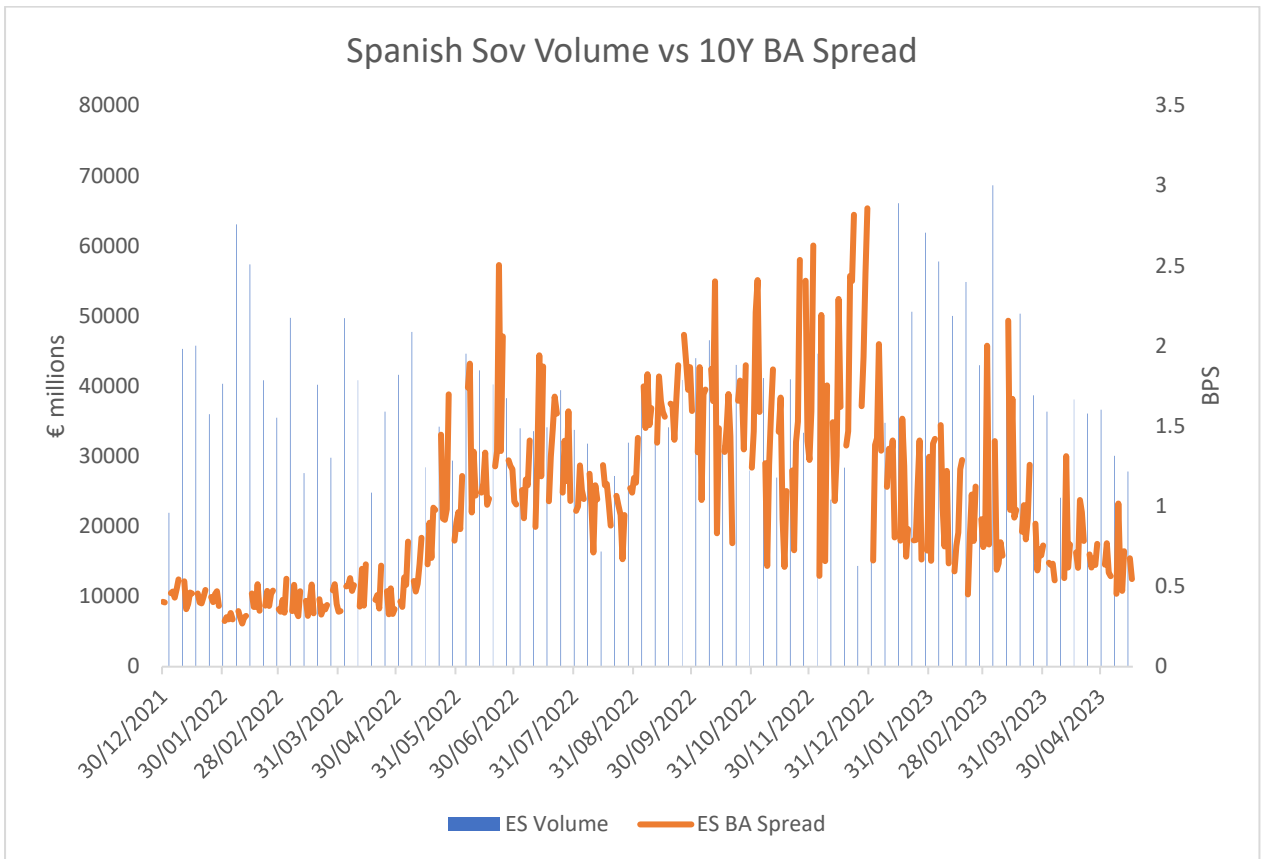
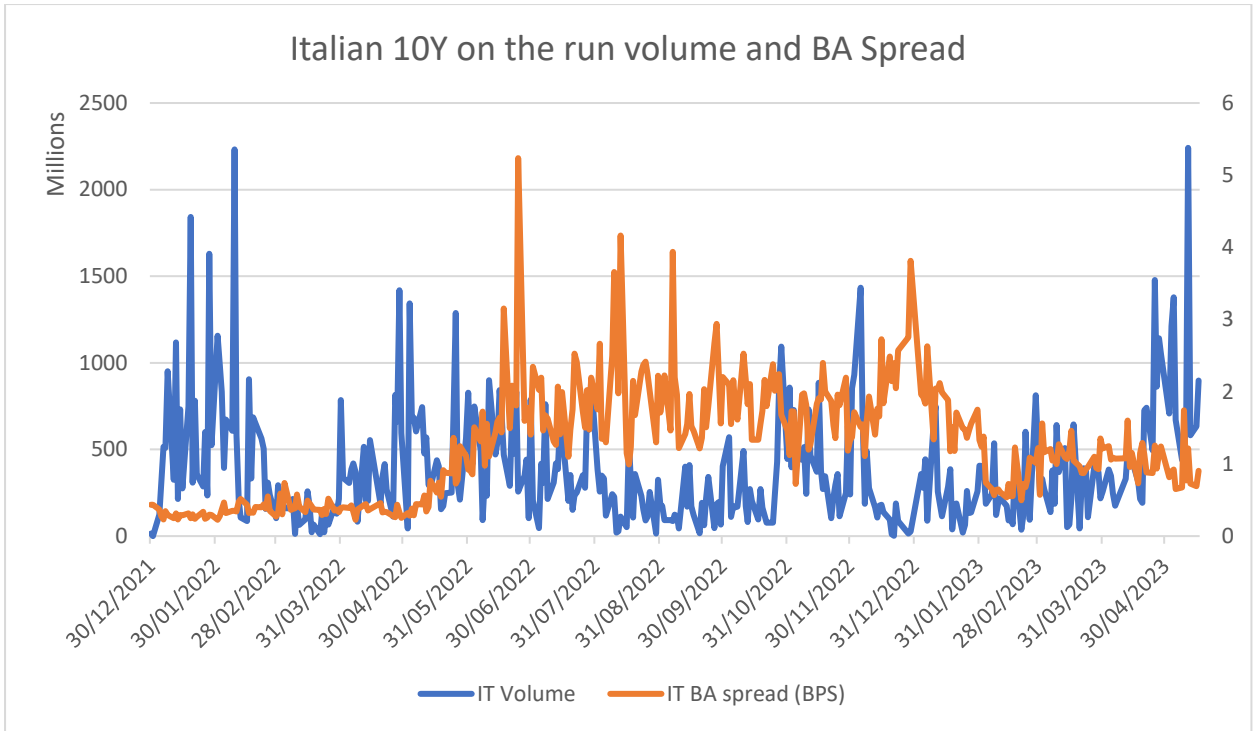
### Volume - BA Spread

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

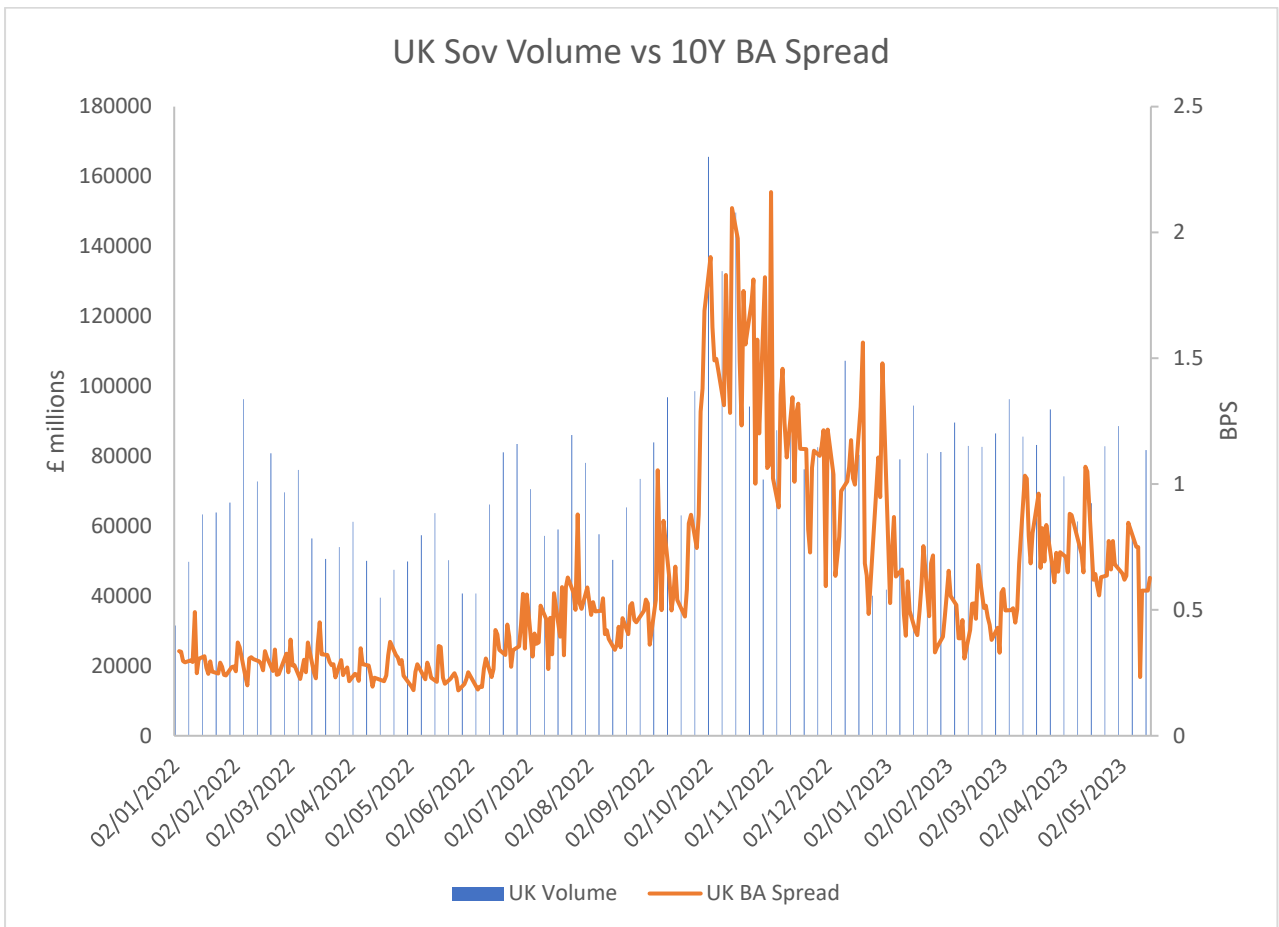
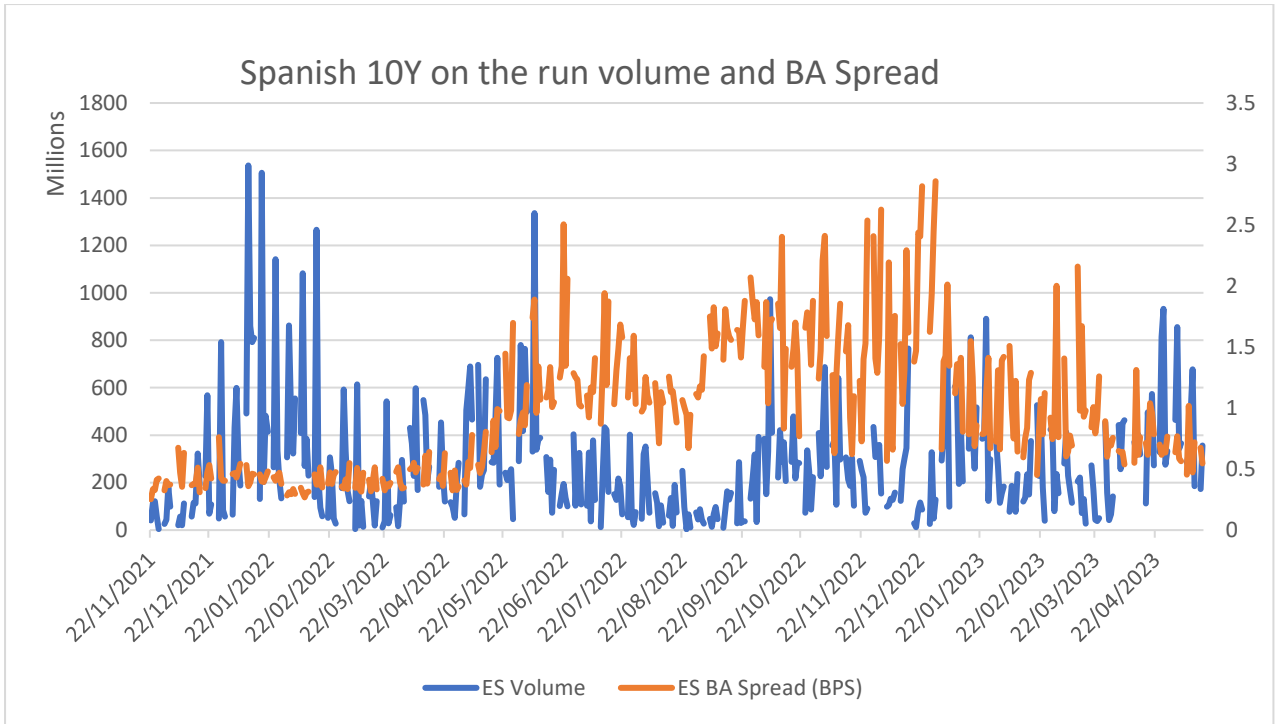


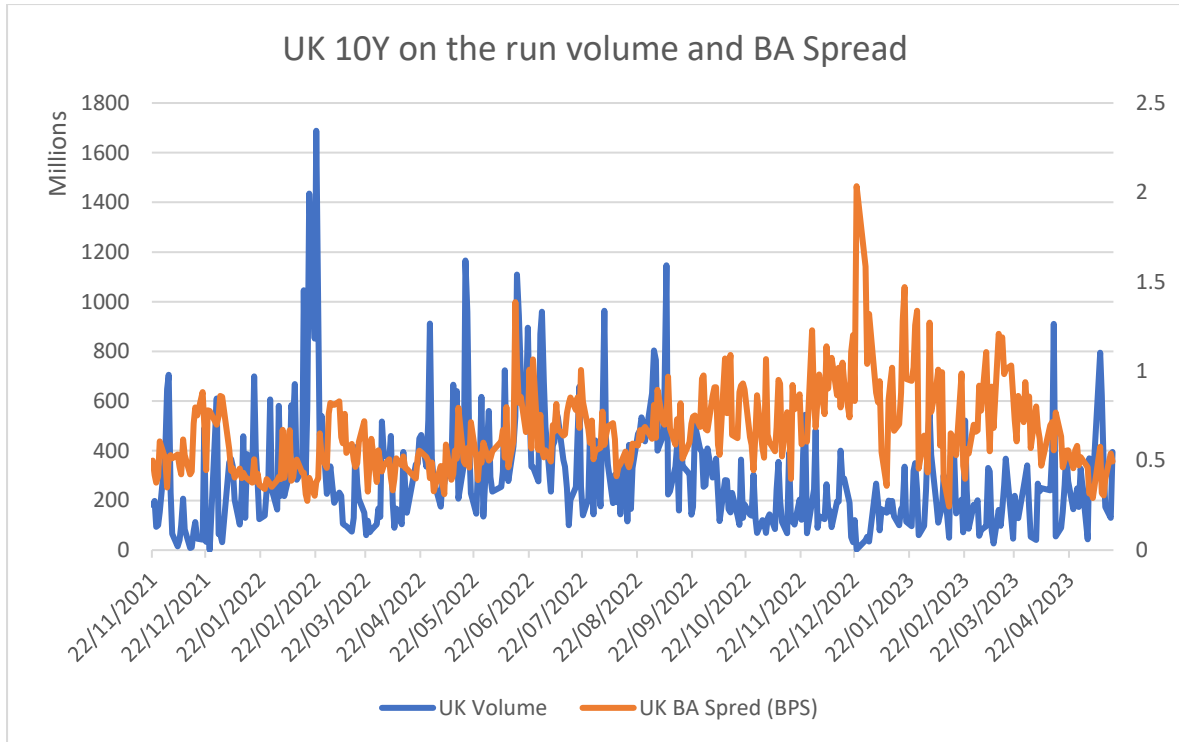






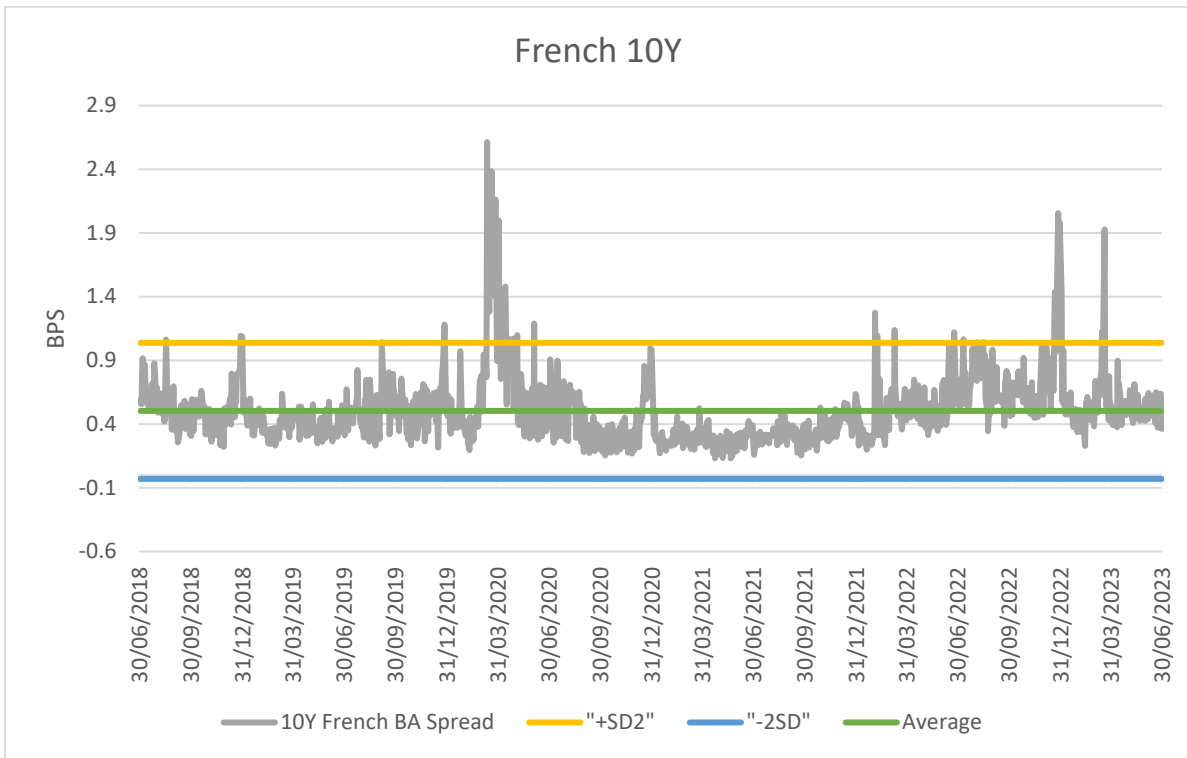
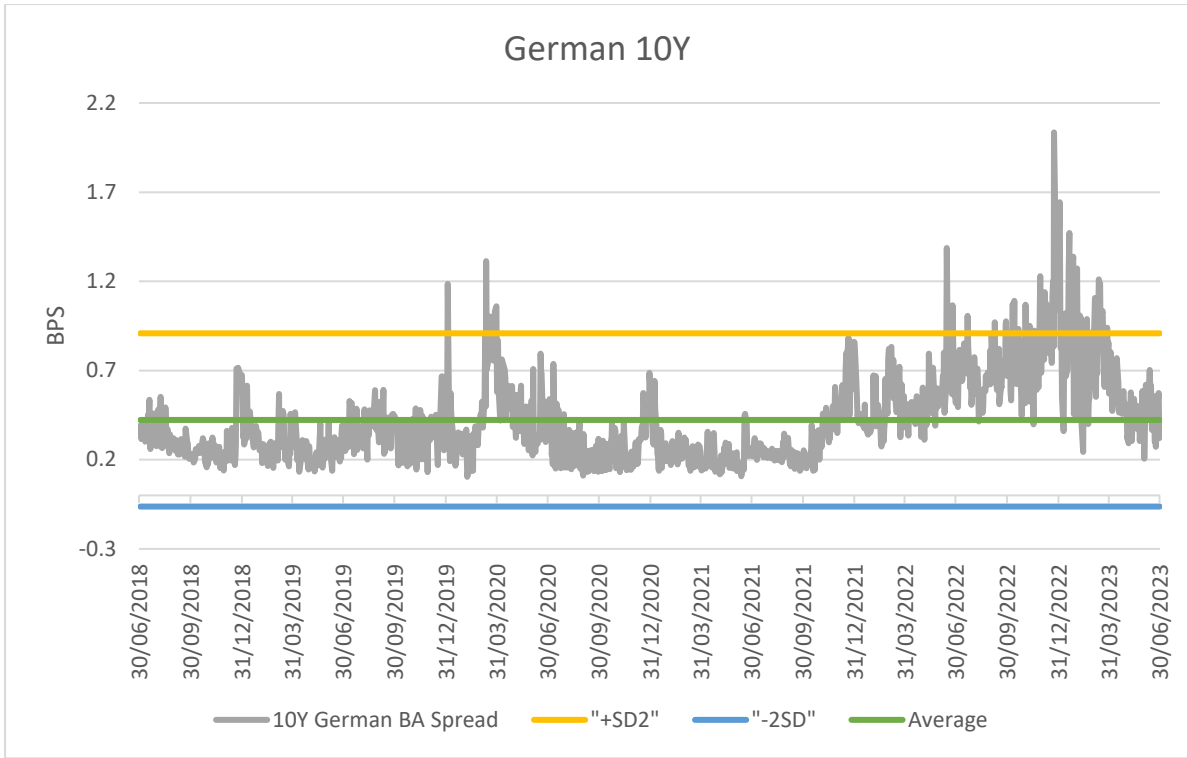


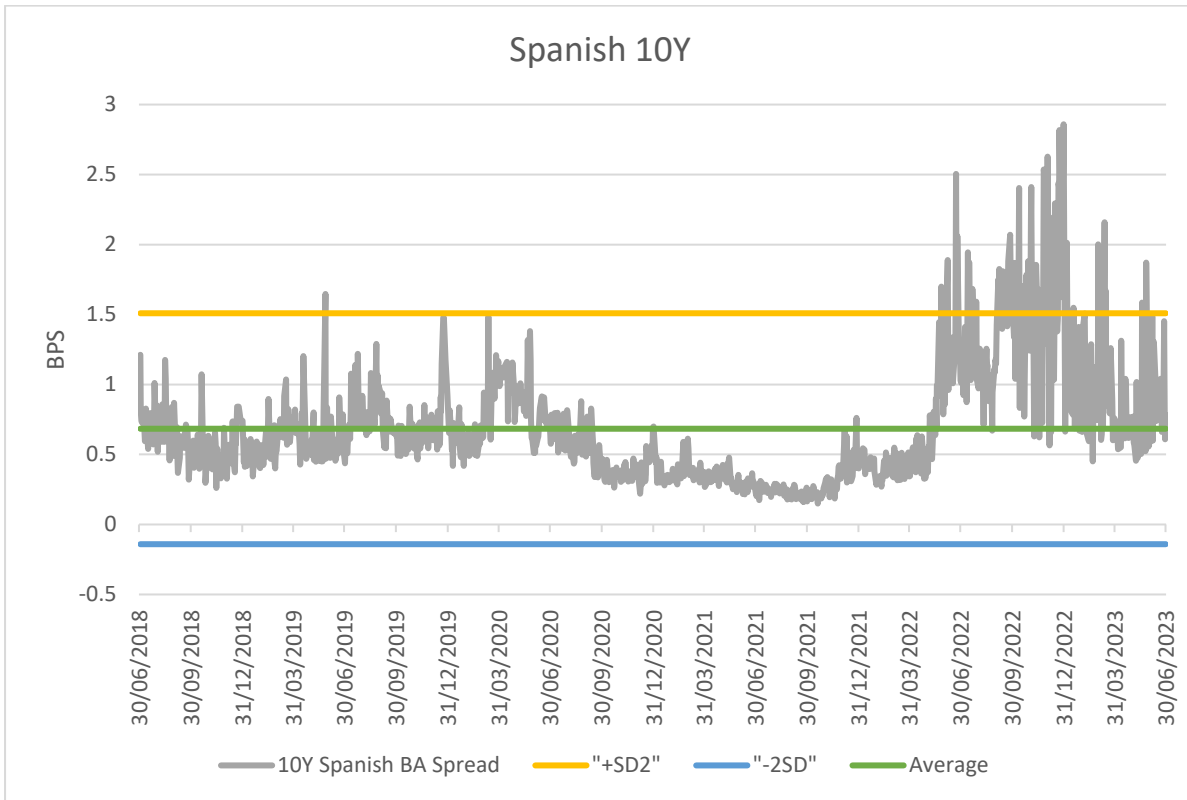
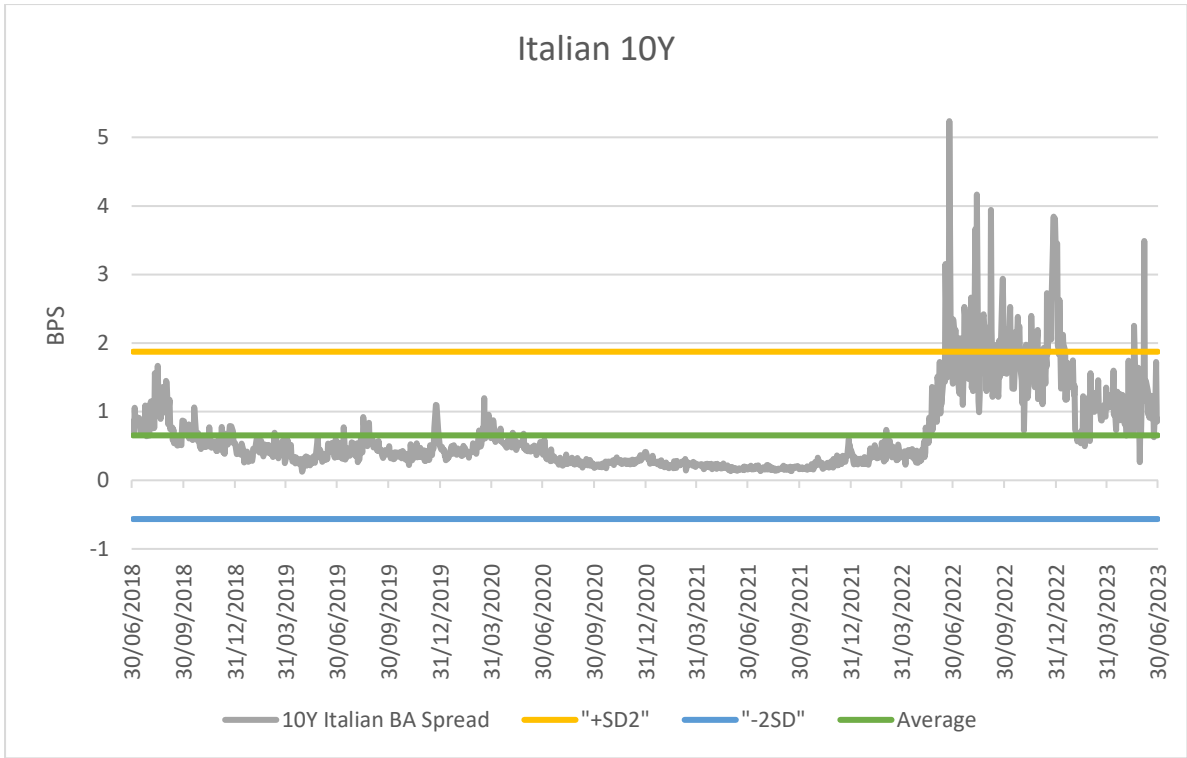


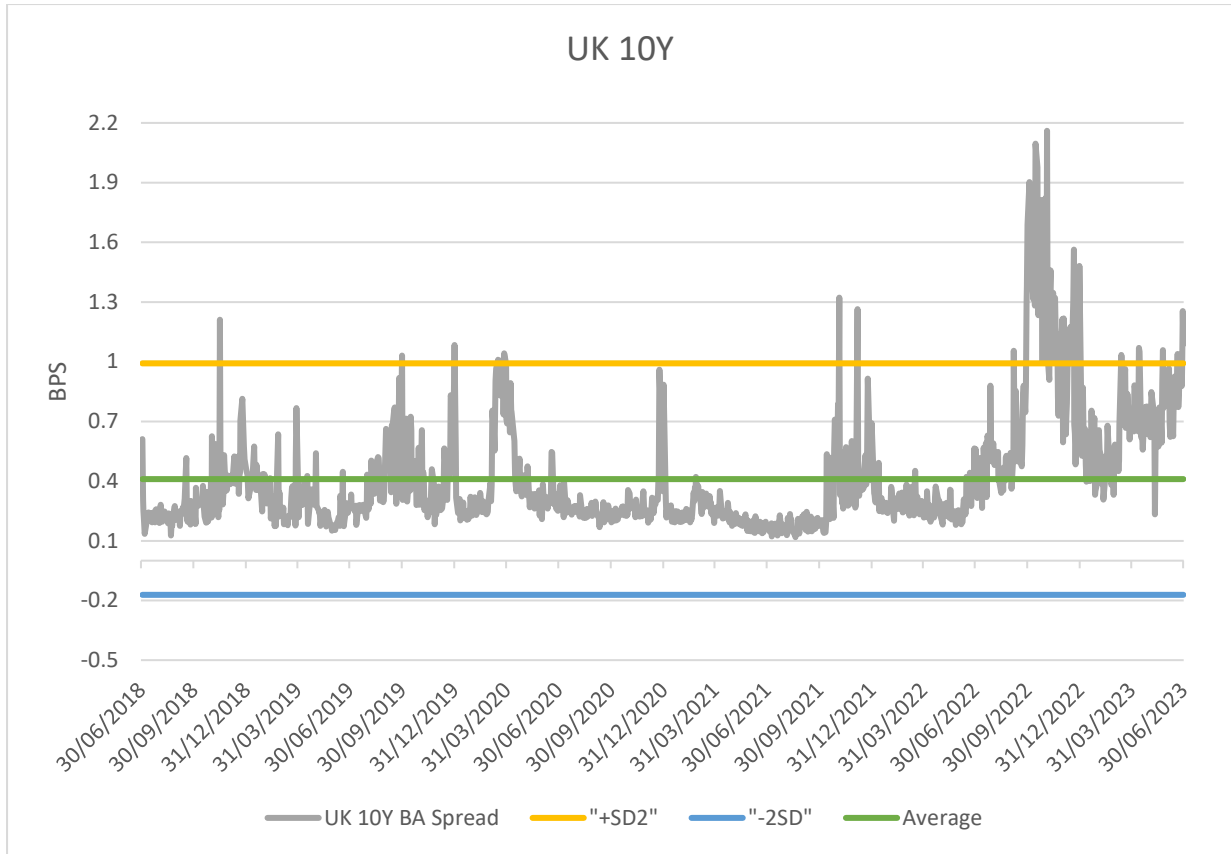


### BA Spread Data summary statistics

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

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 transparency. 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.