Association of Mutual Funds in India

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AMFI Comments on FSB's Consultation Report

1. **Should "normal" and "stressed" market conditions be further described to facilitate the application of the bucketing approach? If yes, how would you propose describing such conditions?**

   The definition of stressed market condition is already covered in earlier regulations issued around Swing Pricing and is always now applicable for activation of CDMDF.

   We think the definition of Liquid/ Illiquid & Less Liquid Assets should be rigorous upfront. These definitions lead to bucketing of assets and valuation of non-traded instruments even under normal market conditions. However, these definitions should not change and remain same under both the circumstances.

2. **Are the examples of the factors that should be considered in determining whether assets are liquid, less liquid or illiquid appropriate? Are there other factors which should be considered and, if yes, which ones and why?**

   The factors listed above in determining whether assets are liquid, less liquid and illiquid are appropriate. However we should be open to consider new factors in future if is deemed appropriate.

   Asset liquidity will also be driven by fallback mechanisms in place now for normal / stress market conditions like Corporate Bond Repo Facility, activation of CDMDF etc. In fact, past actions of regulators during stress times should also be taken in to consideration. For example, RBI has opened liquidity lines for Mutual Funds during stressed market conditions.

3. **Is the use of specific thresholds an appropriate way to implement the bucketing approach? If yes, are the proposed thresholds for defining funds that invest mainly (i.e. more than 50%) in liquid or less liquid assets and funds that allocate a significant proportion (i.e. 30% or more) of their assets to illiquid assets appropriate? If not, which thresholds would be more appropriate and why?**

   The liquidity to be maintained in the portfolio is already defined in the LRM framework. Any OEF which is meeting the LRM framework, is essentially maintaining adequate liquidity for almost 98%-99% of all market environments tested over long period of time. Hence as long as they are adhering to the LRM thresholds on an ongoing basis, they should be allowed to take a call on frequency of redemption pay-out, based on underlying market conditions.

   Under stressed market conditions, Regulator's can monitor factors like the reliance of any particular OEF to the CDMDF platform to avail liquidity etc. and if deemed right, suggest any change to the frequency of redemption pay-out either for specific schemes or in general for the industry for Non MMF / Non ETF OEFs.

4. **Should the FSB consider recommending the use of a decreased redemption frequency (on a standalone basis), a longer notice period (on a standalone basis) or a longer settlement period (on a standalone basis) for OEFs investing in less liquid assets that do not meet the expectation on the implementation of anti-dilution LMTs? Or should these measures be used in combination, considering the risk of redemptions crowding around certain dates?**

   Anti-Dilution LMT options should be spelt out by the regulator but its usage to be left to the AMC discretion during normal times.

   Once Anti-Dilution LMT are in place there is no need for recommending use of a decreased redemption frequency (on a standalone basis), a longer notice period (on a standalone basis) or a longer settlement period (on a standalone basis) for OEFs

5. **Would additional guidance on factors to consider when setting the redemption frequency or notice or settlement period be helpful? If yes, in what respect?**

   Guidance from the regulator on factors to consider when setting the redemption frequency or notice or settlement period is helpful. However the implementation should be left to the discretion of the individual OEF. Further with Swing Pricing already in place, one has to carefully consider introducing any further LMTs specially given the fact that other tools like LRM and stress testing are also in place.

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?**

   While the proposed changes help achieve greater use and a more consistent approach to the use of anti- dilution LMT's, during normal market conditions, there should be no forced adoptions of LMT's. During stressful market conditions, regulators can decide on adoption of LMT's uniformly across the industry.

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?**

   Current Regulations has to be looked in to while enabling anti dilution LMT's wherever the present regulations work's against the implementation of anti-dilution LMT's

   For example, currently the max time period to make a payout to investor is 10 days. So if the regulator recommends/ AMC introduces longer settlement period as a LMT tool, then the current regulations need to be amended.

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?**

   While additional recommendation or guidance to OEF regarding internal systems, procedures and controls enabling them to use anti-dilution LMTs as part of the OEFs' day-to-day liquidity risk management from the regulator would be helpful, the industry needs to implement it uniformly based on AMFI guidance.

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

   The anti-dilution LMTs should not end up worsening an existing problem. Hence there should not be any singular approach to apply this. For example: In market distress, an incoming investor actually reduces the redemption led selling pressure in the scheme and also reduces systemic risk. In that scenario penalising an incoming investor vis a vis an outgoing investor is not an equitable approach.

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?**

    The definition of stress market scenario and the factors to classify assets in liquid/ less liquid and illiquid should be spelt out by the respective regulator.

    International guidance on the availability and use of quantity based LMTs is welcome, however one should be careful in adopting in the local geography as the market context, other regulations related to valuations, LRM etc, market structure and asset profile could be different.

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?**

    The proposed changes help enhance disclosure to investors on the use of anti- dilution LMT's. Scheme which are adopting LMTs and anti-dilution LMT's would include the same in their offer document. AMFI and individual AMCs should disclose the relevant information to investors with sufficient frequency and on a consistent basis as appropriate for financial stability purposes.

12. **Should any other 2017 FSB Recommendations (Recommendations 1, 6, 7 or 9) be amended to enhance the clarity and specificity of the intended policy outcomes? If yes, which ones and why?**

    The recommendations seem to be fairly exhaustive. Regulators of the respective jurisdiction to take view on the above recommendations.

13. **Are there any other aspects that should be considered in the revised FSB Recommendations to ensure that they are effective from a financial stability perspective?**

    The recommendations seem to be fairly exhaustive. Regulators of the respective jurisdiction to take view on the above recommendations.