



**ASSOGESTIONI**

associazione del risparmio gestito

Milano, September 22, 2016

Secretariat of The  
Financial Stability Board  
c/o Bank for International  
Settlements  
CH-4002, Basel  
Switzerland

Prot. n. 308/16/C

## **Assogestioni's reply to FSB Consultative document on Proposed policy Recommendation to Address Structural Vulnerabilities from Asset Management Activities**

Assogestioni<sup>1</sup> welcomes the opportunity to respond to FSB Consultative document on Proposed policy Recommendation to Address Structural Vulnerabilities from Asset Management Activities.

### **1. Background**

***Q1. Does this consultative document adequately identify the structural vulnerabilities associated with asset management activities that may pose risks to financial stability? Are there additional structural vulnerabilities associated with asset management activities that the FSB should address? If there are any, please identify them, as well as any potential Recommendations for the FSB's consideration.***

In general, we agree with the structural vulnerabilities associated with asset management activities. We noted also that the first two identified as i) mismatch between liquidity of fund investments and redemption terms and conditions for fund units and (ii) leverage within investment funds, have already inspired European regulators in the UCITS and AIFMD directives and their implementing measures.

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<sup>1</sup> Assogestioni is the trade body for Italian investment management industry and represents the interests of members who manage funds and discretionary mandates around € 1,800 billion (as of July 2016).



We agree also with the FSB statement that pension funds contribute to the stability of the financial system thanks to their long term horizon and due to the fact that their investment choices are not significantly affected by markets movements.

***Q2. Do the proposed policy Recommendations in the document adequately address the structural vulnerabilities identified? Are there alternative or additional approaches to risk mitigation (including existing regulatory or other mitigants) that the FSB should consider to address financial stability risks from structural vulnerabilities associated with asset management activities? If so, please describe them and explain how they address the risks. Are they likely to be adequate in stressed market conditions and, if so, how?***

We generally agree that the proposed draft Recommendations adequately address the potential vulnerabilities as identified, albeit with a number of reservations on some of the draft Recommendations presented in Q3 response.

***Q3. In your view, are there any practical difficulties or unintended consequences that may be associated with implementing the proposed policy Recommendations, either within a jurisdiction or across jurisdictions? If there are any, please identify the recommendation(s) and explain the challenges as well as potential ways to address the challenges and promote implementation within a jurisdiction or across jurisdictions.***

We have some concerns with the following draft Recommendations:

- Recommendation 9 regards system-wide stress testing. The Recommendation requires to model the effects of large asset sales involving an entire universe of very different market actors to improve the monitoring of the resilience of financial markets to collective selling by funds and other market actors. The required data collection, its aggregation and elaboration together with development of a model would present a challenging task for this stress-testing exercise with uncertain outcomes. Difficulties would come in aggregating data on system-wide basis; qualitative factors and sound degree of judgment should be used, as investors (institutional and retail) do not decide to exit markets with the same subscription/redemption patterns. In addition, the identification of the ultimate asset owners for the estimation of the patterns is an issue in itself. Should this Recommendation be implemented, it should be clarified that this apply to competent authorities only (and not to individual asset manager).
- Recommendations 10 and 12 regards the opportunity to develop a “simple and consistent” measure(s) of leverage and collect data across countries. We are doubtful on the results of the exercise of aggregation of individual leverage figures across different funds with different strategies even when a unique methodology could be defined for the monitoring of financial stability. Instead of collecting synthetic information on leverage, we suggest escalation procedures with national supervisor collecting relevant data for specific sectors of the asset management industry. Where necessary/appropriate, the



information could be aggregated and shared with those regional or global standard setters for the purpose of monitoring financial stability risks.

## **2. Liquidity mismatch between fund investment assets and redemption terms and conditions for fund units**

***Q4. In your view, is the scope of the proposed Recommendations on open-ended fund liquidity mismatch appropriate? Should any additional types of funds be covered? Should the proposed Recommendations be tailored in any way for ETFs?***

We generally find the proposed draft Recommendations 1 to 7 appropriate. In particular, we fully support FSB when recognizing in Recommendations 1 and 2 that the transparency on information on the liquidity profile to the Authority and to investor should be proportionate to the risk that the funds may pose from a financial stability perspective.

As regards Recommendations 8 and 9, please refer respectively to our answer to Q8 and Q3.

***Q5. What liquidity risk management tools should be made available to funds? What tools most effectively promote consistency between investors' redemption behaviours and the liquidity profiles of funds? For example, could redemption fees be used for this purpose separate and apart from any impact they may have on first-mover advantage?***

The results of IOSCO survey on tools available to asset managers (FR28/2015) show as these are varied among jurisdiction and, in some cases, only available for a subset of funds. We support therefore the FSB Recommendations that encourage competent Authorities to broaden the range of available tools for asset manager to deal with liquidity risk.

We deem tools described in the FSB or also described in the study made by EFAMA and AMIC on "Managing fund liquidity risk in Europe" appropriate, such as the use of swing pricing, dual pricing/redemption fee or dilution levy, that will contribute to the management of liquidity risk and positively complement the established legal framework.

We suggest therefore that restriction or bias should not be applied to use of the various tools. Among a broader range, the asset manager could choose the tool that best manages their liquidity risk under market circumstances, that may be very diverse, and on the basis of characteristic/strategy of the fund.

***Q6. What characteristics or metrics are most appropriate to determine if an asset is illiquid and should be subject to guidance related to open-ended funds' investment in illiquid assets? Please also explain the rationales.***

Liquidity is a multi-dimensional factor, and it usually depends on several varying and dynamic factors. Furthermore, investments in less-liquid asset classes are by no means a "fragility" *per se* and they could be appreciated, especially in terms of



diversifying their exposure over the longer term, with a clear understanding of investor profiles and of their investment horizon.

We would therefore encourage the FSB to move its thinking away from a strict, one-sided view of identifying the metrics for illiquid assets, leaving it to the individual player's assessment.

***Q7. Should all open-ended funds be expected to adhere to the Recommendations and employ the same liquidity risk management tools, or should funds be allowed some discretion as to which ones they use? Please specify which measures and tools should be mandatory and which should be discretionary. Please explain the rationales.***

We deem important that the same liquidity risk management tools could be accessible for all asset manager. As already suggested in our response to Q5 it is important to ensure that asset manager remain free to choose the tool that best manage their liquidity risk. This does not mean necessarily that the asset managers will use them. The IOSCO survey (FR28/2015) have shown that asset managers have used some exceptional tools such as suspension of redemptions and side pockets in few circumstances.

***Q8. Should authorities be able to direct the use of exceptional liquidity risk management tools in some circumstances? If so, please describe the types of circumstances when this would be appropriate and for which tools.***

As regards the proposal of specific guidelines on the use of exceptional liquidity risk management tools coming from Authorities, as Recommendation 8, we fear possible unintended consequences. Even if they may help asset managers to overcome reputational or competitive reluctance to use such tools as FSB describes, at the opposite side, on the other hand, they could undermine the decision taken by asset manager if not in line with the guidelines, with consequently reputational/legal risk.

Therefore, we suggest that the interventions of Authorities should be left limited to very exceptional circumstances and in the interest of the public or for financial stability purpose and only limited to the suspension of dealing and/or creation of side-pockets.

### **3. Leverage within funds**

***Q9. In developing leverage measures (Recommendation 10), are the principles listed above for IOSCO's reference appropriate? Are there additional principles that should be considered?***

We firstly note that developing a "simple and consistent" measure is challenging. Leverage in asset management industry is of a different nature and rely on a completely different business model relative to other financial actors such as bank. So it is not clear how this measure could be comparable.



In our experience, exposure/leverage is not a “simple and consistent” exercise and it is hardly yield a reliable figure given the diversity of investable assets, investor profiles and investment strategies. It should also be considered that such measures in the asset management experience were not born for the purpose of monitoring financial systemic risk.

Exposure/leverage are often used as prudential fund rule, supported with position assets limits and integrated in an appropriate risk management process that take into account further variable. In Europe, the UCITS and AIFMD framework have defined in fact different measures (net leverage/commitment, VaR, gross leverage).

Such measures provide useful information at the single fund level only, or at most, when comparing funds that are very similar in terms of underlying, strategy and investor profile. Any further aggregation of fund leverage figures “(...) *across jurisdictions and different types of funds (...)*” would capture a fund universe that is plainly too large and too diverse to yield any appreciable and economically true estimate. Such information would represent a synthetic information only of one part of the market side and would not account for the infinite degrees of interactions between funds, their investors and other third-party intermediaries.

We deem important that “leverage” continue to be calculated on the basis of the existing methods, as in Europe and elsewhere, and that the monitoring of leverage for financial stability purposes be left within the statutory remit of the competent market supervisors. As repositories of fund-level regulatory filings, domestic supervisors would, as part of their statutory mandate, in our view be best able to monitor the build-up of any “excessive” leverage in specific corners of the market. As FSB stated few actors, compared to the multitude of existing funds, may use high level of leverage. Escalation procedures to notify supranational instances of looming macro-prudential risks, as in Europe, would be a natural part of this proposition.

Relevant data for specific jurisdictions and for specific sectors of our industry could be aggregated by the national supervisor from a company’s regulatory filings and shared with those regional or global standard setters for the purpose of monitoring financial stability risks.

In any case, where a leverage measure is to be found with a further IOSCO assessment of its suitability, we would support the four principles highlighted in Section 3.4.

***Q10. Should simple and consistent measure(s) of leverage in funds be developed before consideration of more risk-based measures, or would it be more appropriate to proceed in a different manner, e.g. should both types of measure be developed simultaneously?***

Please refer to Q9 response above.

***Q11. Are there any particular simple and consistent measures of leverage or risk-based measures that IOSCO should consider?***



Please refer to Q9 response above.

**Q12. What are the benefits and challenges associated with methodologies for measuring leverage that are currently in place in one or more jurisdictions?**

We suggest that the various European approaches to measure a fund's "global exposure" should be considered – as per the relevant EU legislation and regulation under the UCITS and AIFM Directive frameworks –. For UCITS, please refer to the Committee of European Securities Regulators' (CESR) 2010 *Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS*. For AIFs, please refer to the relevant implementing delegated Regulation (No. 231/2013) to the AIFM Directive.

**Q13. Do you have any views on how IOSCO's collection of national/regional aggregated data on leverage across its member jurisdictions should be structured (e.g. scope, frequency)?**

Reporting data issue should be appropriately considered. We suggest IOSCO should begin by taking into account the current reporting contents and practices in key jurisdictions, so as to avoid unnecessary cost of regulatory filings for asset management companies. In addition to the request of national competent authority, multiple standardized reporting requirements stemming, among others from AIFMD, EMIR, Short Selling Regulation, European Central Bank Regulation concerning statistics on investments fund and forthcoming regulation such as SFT Regulation.

**Q14. Do the proposed policy Recommendations on liquidity and leverage adequately address any interactions between leverage and liquidity risk? Should the policy Recommendations be modified in any way to address these interactions? If so, in what ways should they be modified and why?**

We find that Recommendations adequately address liquidity and leverage interactions.

IL DIRETTORE GENERALE