FSB Report captioned "Proposed policy recommendations to address structural vulnerabilities from asset management activities".

General Questions:

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.

HDFC AMC Comments: Yes, the document adequately identifies the structural vulnerabilities.

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?

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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.

HDFC AMC Comments: The liquidity parameters like days to sell, VAR etc are valid in normal circumstances but when adverse event happens the liquidity deteriorates and volatility increases.

It should be noted that mutual funds are a pass through vehicle and liquidity for any asset class is available at a price. Hence investor education about risk –reward matrix is very important.

Liquidity Mismatch between fund assets and redemption terms

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?

HDFC AMC Comments: Yes. May not be required for the ETFs

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?

HDFC AMC Comments: Suggested pre-emptive measures appear reasonable.

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.

HDFC AMC Comments: Classification of funds based on the quality of portfolio will be more appropriate rather than trying giving liquidity of the underlying security, which driven by sentiments and regulatory policies at the given point in time.

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.

HDFC AMC Comments: It should be based on the nature of the fund.

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.

HDFC AMC Comments: Yes authorities should be able to direct the use of exceptional liquidity risk management tools

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?

HDFC AMC Comments: Yes.

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?

HDFC AMC Comments: In our view, it would be better to first develop simple and consistent measure of Leverage control in first phase and then subsequently use other risk based measure in the subsequent phase.

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

HDFC AMC Comments: Leverage beyond hedging should be allowed to a limited extent.

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

HDFC AMC Comments: As per the current regulation use of derivative is permitted only for portfolio rebalancing, hedging and limited leveraging via call option. This restricts the extent of use of leverage in portfolio and thereby limits the risk

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)?

HDFC AMC Comments: No Views

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?

HDFC AMC Comments: No Views

Q16: In your view, what are the relevant information/data items authorities should monitor for financial stability purposes in relation to indemnifications provided by agent lenders/asset managers to clients in relation to their securities lending activities?

HDFC AMC Comments: Security and Lending borrowing should only be exchange controlled and thereafter day to day mark up of indemnity should be monitored

Q17: Should the proposed recommendation be modified in any way to address residual risks related to indemnifications? For example, should it be more specific with respect to actions to be taken by authorities (e.g. identifying specific means for covering potential credit losses) or more general (e.g. leaving to authorities to determine the nature of appropriate action rather than specifying coverage of potential credit losses)?

HDFC AMC Comments: If it becomes exchange driven, it can be left to authority to decide all course of action.

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