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Alternative Investment Management Association

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Send via e-mail to: rule-comments@sec.gov

File Nos. S7-16-15; S7-08-15

13 January 2016

Dear Mr. Fields,

AIMA's Response to the SEC's Proposed Rule on Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release

The Alternative Investment Management Association (AIMA)[1] welcomes the opportunity to respond to the Securities and Exchange Commission (Commission or SEC) Release Nos. 33-9922; IC-31835; File Nos. S7-16-15; S7-08-15 entitled "Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release" (the 'Proposal').

We support the Commission's objective of ensuring that each fund establishes and follows policies and procedures reasonably designed to assess and manage the liquidity risk of the fund, in a manner that is consistent with the liquidity profile of the particular investment product. As the Commission has observed, daily redeemability is the defining feature of registered mutual funds and other open-end investment management companies.[2]

Thus, liquidity management practices for these funds should appropriately be aimed at maintaining the ability to meet shareholder redemptions consistent with the fund's obligations under Section 22(e) of the Investment Company Act of 1940, as amended ('1940 Act'), and at complying with a 15% limit on illiquid assets in a fund's portfolio. However, we respectfully disagree with the Proposal's asset classification requirements which appear to be overly rigid and prescriptive. We support a risk-based approach that would better serve to tailor a fund's liquidity protocols to its investment program and the specific risks of that program.

Proposed Rule 22(e)(4) under the 1940 Act would require a fund to classify and engage in an ongoing review of the relative liquidity of each portfolio position (or portion of a position), using a six-category classification scheme based on the number of days in which the fund's position would be convertible to cash "at a price that does not materially affect the value of that asset immediately prior to sale." We do not support this aspect of the Proposal and submit that a risk-based and principles-based approach would permit funds to manage liquidity risk more effectively, by incorporating qualitative and quantitative considerations most relevant to the liquidity risk profile of a particular fund.

Mandating a detailed and rigid liquidity classification scheme across all funds is problematic, as contrary to the approach taken in the Proposal, there is no single measurement or method for determining the liquidity of an asset. Liquidity determinations involve dynamic and inherently

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[1] As the global hedge fund association, the Alternative Investment Management Association (AIMA) has over 1,500 corporate members (with over 9,000 individual contacts) worldwide, based in over 50 countries. Members include hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors.

[2] We recognise that the Proposal does not include money market funds within its purview.

subjective processes that can encompass many factors, which can vary based on the type of asset, and can take into account information about the type of issuer, domicile of issuer, duration, credit quality, etc.

Moreover, an assessment of portfolio-level liquidity should more appropriately take into account a fund's specific risk characteristics, including its risk profile, portfolio holdings, investment strategies and policies, in addition to market conditions and the fund's past pattern of shareholder purchases and redemptions.

The Proposal would instead require funds to make (and publicly disclose) highly subjective projections about how long it would take to convert each asset to cash without materially affecting its market price. Recognising that funds can hold an extremely wide variety of investments, and these investments can trade in different markets, a classification regime that requires a uniform method for assessing liquidity is not appropriate. Without actually executing a trade, it is very difficult to determine with any degree of confidence how quickly an asset can be sold at a particular price. These difficulties are compounded with respect to assets that are traded over-the-counter.

We also submit that imposing a uniform and granular classification method will be of limited utility in promoting comparability among funds. Given the inherent subjectivity involved in the exercise, outcomes could vary widely from security to security or fund to fund. We believe that funds and their shareholders would be better served from a risk management perspective if funds were required to devise policies and procedures that are tailored to address the liquidity risks attendant to a particular fund.

Within this framework, funds' policies and procedures could include classifications or measurements designed to monitor liquidity risk. However, requiring a single classification scheme for all funds would seem to imply, we believe incorrectly, that there is one objective method for measuring liquidity across funds. Accordingly, we would support a more tailored, risk-based liquidity management program that would require fund managers to evaluate liquidity characteristics of the particular investment strategies that they employ and of the assets in the funds they manage.

We hope you find our comments useful and would be more than happy to answer any questions you may have in relation to this submission.

Yours sincerely,

Jiří Król
Deputy Chief Executive Officer
Global Head of Government Affairs