February 2, 2016

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: *Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release (File Nos. S7-16-15 and S7-08-15)*

Dear Mr. Fields:

The undersigned are associations representing the investment funds industry in 18 jurisdictions worldwide. We jointly are submitting these comments on the U.S. Securities and Exchange Commission's (SEC) proposal to promote effective liquidity risk management in U.S. registered open-end funds, and applaud the SEC's attention to this important topic. Our associations have an interest in fund liquidity management practices and associated regulatory standards at both a global and a national level.

As the SEC is aware, global organizations are giving active consideration to liquidity management issues, both for funds and for certain markets and asset classes. Fund regulators collectively, as well as those in specific jurisdictions around the world, consider the approaches taken by the SEC and others as they weigh the need for regulatory changes in their own local markets.

Our members, investment funds and their managers, play important roles in national and global financial markets. Because of the many advantages that funds afford investors, funds are key intermediaries in capital markets and an indispensable vehicle for investors seeking to achieve their most important long-term financial goals. For these reasons, we support policy initiatives that strengthen the current regulatory framework in ways that will benefit markets, funds, and investors.

We would urge the SEC, as it considers how best to strengthen liquidity risk management for open-end funds, to take account of liquidity risk management frameworks that have proved successful in other jurisdictions and to be cautious in the development of new rules. We concur in the observation of Mr. Mark Zelmer, Deputy Superintendent, Office of the Superintendent of Financial Institutions Canada, and co-chair of a Financial Stability Project on vulnerabilities and asset management. In addressing the issue of liquidity risk management in investment funds, Mr. Zelmer stated that global policymakers "should resist the temptation to treat investment fund liquidity management practices as a macro-prudential tool for cushioning markets from the actions of end-investors. Taken to extremes, that would slow markets' processing of new information, which would give rise to some easy arbitrage opportunities."

This caution is most important, in light of certain aspects of the SEC's proposal to impose a liquidity risk management framework. When investing in a regulated open-end fund, an investor has chosen to take on the risks and returns of the assets or asset classes in which the fund invests. Purchases and sales of securities, by funds and by other investors in a given market, can be influenced by many factors that together impact the prevailing prices of such securities. Among these factors, historically very much at the margin, may be redemptions by fund shareholders that occasion the sale of fund portfolio assets. In our view, sound liquidity management standards should not seek to eliminate or minimize such effects or seek, as Mr. Zelmer puts it, to "cushion markets from the actions of end-investors."

Moreover, we would urge that the SEC avoid imposing liquidity risk management rules for open-end funds that are highly prescriptive in nature. We are concerned that such an approach could be counterproductive. The six-bucket classification scheme advanced by the SEC would align liquidity management practices across the US fund industry, potentially creating new risks and vulnerabilities. This classification scheme and the proposed three-day liquid asset requirement could lead to "herding" behaviour around certain assets.

Instead, we recommend a principles-based approach. In the market, numerous different approaches to managing liquidity have emerged and have proven highly successful over time. There are many models and methodologies that seek to take into account the numerous factors that can impact liquidity at a given point in time and over time as markets evolve. Nonetheless, we are aware of no single, validated approach for accurately measuring and managing liquidity risk in the diverse array of investment funds offered in the U.S. or globally. Consequently, we believe it to be most important that a fund retain the flexibility to tailor its liquidity risk management practices in light of the nature of the assets in which the fund invests, the markets in which these assets trade, the fund's shareholder base, and numerous other factors. In our judgment, it would be unwise for any regulator to seek to impose a prescriptive one-size-fits-all approach to measuring and managing liquidity.

For this reason, we recommend that the SEC carefully consider the flexibility and variety evidenced in global approaches to fund liquidity risk management. As demonstrated in IOSCO's December 2015 paper on liquidity management tools in collective investment schemes (IOSCO 2015 paper), various approaches have been effective in protecting investors without leading to broader effects beyond the fund or funds involved.

Finally, we recommend that the SEC ensure that there is both fair and adequate disclosure for investors on liquidity risk management programs and available tools. The IOSCO 2015 paper highlights the importance of informing investors of the "rules of the game" so that investors understand how and when liquidity management tools, such as fees, gates, redemptions-in-kind or swing pricing, may be used by a fund and its manager.

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We sincerely appreciate the opportunity to submit our collective views on this important subject. We invite you to contact any of the undersigned if you wish to discuss our comments or if we can be of further assistance.

Very truly yours,

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