IOSCO's Consultation on Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes

1) Are the identified common components of OEF's structure including notice periods, lock-up periods, settlement periods and redemption caps accurately described? Are there any relevant additional considerations when setting the notice periods, lock-up periods, settlement periods or redemption caps?

The definitions of notice, lock-up and settlement periods are accurately described, however, the definition of redemption caps is not entirely accurate for us, as it is not clear whether the cap would apply to each individual investor or to the fund as a whole.

Besides, we understand that it is important to clarify the concept of settlement period and date of a class of fund shares and the difference between these terms and the notice period. As provided in the consultation, the notice period is the length of advance notice that an investor must give to a manager of his/her intention to redeem their investment from the fund, allowing the manager to adjust the fund's liquidity and prepare to fulfill the requests. Meanwhile, the settlement date is the date when the value of the fund shares to be redeemed is calculated.

The settlement period, on the other hand, is the period between the trade date when a redemption request is made and the date when the transaction of fund units and money are completed and settled. In this regard, the consultation establishes that the settlement period of open-ended funds that invest in net assets is typically from one to three days. We agree with the consultation that it is important to consider the fund's liabilities and the potential behavior of investors when establishing the redemption metrics of funds. As an example, a highly diversified fund implies that each shareholder holds a very small percentage of the net asset value (NAV). In this case, to have any liquidity shortfall, many simultaneous redemptions by shareholders and very low fund liquidity would be necessary. For more liquid funds that fall into this situation, a redemption period of one to three days is unlikely to pose any liquidity problem.

In the case of exclusive funds where a single shareholder holds 100% of the shares and can redeem at any time, a short redemption period can cause problems for the manager, especially in a portfolio of less liquid assets. On the other hand, the shareholder of the exclusive fund or shareholders of a family fund may exhibit a uniform redemption behavior where shorter redemption periods may be viable, even with a portfolio of less liquid assets.

Recommendation 6: Considering and implementing a broad set of anti-dilution LMTs, quantity-based LMTs and other liquidity management measures

2. Are there any other key considerations related to the availability and use of antidilution LMTs, quantity-based LMTs and other liquidity management measures under normal and stressed market conditions?

As indicated in the previous joint public consultation of FSB on the Revised OEF Recommendations and of IOSCO on illiquidity management tools (LMTs) Guidance – Consultation Report, ANBIMA understands that the appropriate liquidity management takes place in three stages, as outlined below:

i. At the time the fund is set up (product design), with the establishment of its investment policy, asset liquidity, target investor, and redemption rules;
ii. During daily monitoring of both asset liquidity and the changes in liability composition (investors), for example, based on the calculation of liquidity ratios over time horizons, prioritizing the continuous management of liquidity conditions; and
iii. In the possibility of anti-dilution liquidity management tools making estimates, of amounts or other tools such as Side Pocket, adjusted to each fund type and respective redemption condition.

The first two stages (i and ii) are carried out under normal conditions, and the third stage (iii) would be carried out under market stress conditions.

In this regard, we agree with what is stated in the consultation, that the liquidity management process begins when the fund is set up (product design), which should be proactively implemented, with preventive and ongoing monitoring that considers both the fund assets and liabilities, adopting liquidity tools to address specific characteristics, atypical illiquidity scenarios and/or systemic stress scenarios.
As pointed out in the consultation, we believe that considering potential liabilities to maintain consistency between the portfolio liquidity and its redemption terms is

relevant. We emphasize that in Brazil the analysis of liability concentration and investor profile is a self-regulation rule of ANBIMA, the manager being responsible for estimating the liability behavior through the methodology for calculating the probability of redemptions developed by the Association.

Bucketing Approach

Regarding the proposed bucketing approach contained in the revised Recommendation 3, which proposes to fit all possible open-ended funds into three categories, that is funds that mainly invest in (i) liquid assets, (ii) less liquid assets, and (iii) funds that allocate a significant proportion of their assets under management to illiquid assets, we understand that it does not appropriately reflect the plurality of products, markets, assets, and situations of change in investor behavior.

We agree with the understanding pointed out in the previous consultation that proposing fund categorization favors the *ex-ante* classification of asset liquidity instead of the implementation of preventive and predictive practices and procedures that should consider the potential investor behavior. In addition, ANBIMA understands that in many daily liquidity funds the first mover advantage risks are mitigated by the daily pricing of the assets comprising the fund portfolio and the appropriate management between asset liquidity and the estimated flows of redemptions by shareholders over many terms that anticipate potential situations of liquidity mismatch (Asset and Liability Management (ALM) of liquidity).

Anti-dilution Tools

In terms of anti-dilution tools, Resolution 175/2022 allows redemption and exit fees to be used on normal market conditions, and these are used by asset managers in certain fund types. In addition, the introduction of other anti-dilution tools is in discussion. However, there is concern over the mandatory use of anti-dilution tools in a wide range of funds with daily liquidity, once the use of these mechanisms may reduce the competitiveness of such funds as investors could perceive these tools as costs.

In the current context, the main doubt about the availability of anti-dilution tools in Brazil is related to governance issues. Despite the regulatory framework has been reformulated to soften the legal arrangement about funds, the most common Brazilian fund format is joint ownership by shareholders, without decision-making frameworks, executive boards or board of directors to approve the use of such tools.

ANBIMA understands that the general rule for open-ended funds should establish an active, robust and daily management of liquidity, and based on investor redemption estimates. In addition, in the design of daily liquidity funds, the availability of an anti-dilution tool should be evaluated by those in charge, in both normal and stress situations, according to the characteristics of the fund, of the markets of the underlying assets, and of the target investors. Finally, the quantity-based tools and other liquidity management measures are more appropriate to stress situations, and the liquidity management tools are instruments that complement the actual management, therefore, its excessive use could give rise to incentives that oppose those that the recommendations aim to establish.

Quantity-based tools and other liquidity management measures

For extraordinary liquidity situations, we maintain the understanding that the quantity-based tools, such as redemption gates, or other liquidity management measures, such as side pockets, provide a fairer response to the situation from the perspective of fair treatment of fund shareholders regarding priced-based (anti-dilution) tools.

As indicated in FSB's Peer Review of Brazil (https://www.fsb.org/2024/11/peer-review-of-brazil-2/), released in 2024, Resolution 175/2022 changed the regulation of the investment fund sector, including the introduction of measures to limit leverage and expanding the availability of liquidity tools with the possibility of using redemption gates and side pockets. Accordingly, as of October 2023 the Brazilian investment fund market can use these tools.

Also, the Brazilian investment funds are not allowed to borrow directly, but certain fund types can take on leverage by using derivatives, up to a specified limit. The RCVM 175 sets leverage limits for certain types of investment funds and the calculation of capital risk exposure.

It is important to highlight that, in the Brazilian fund market, the CVM conducts daily monitoring of funds liquidity. This practice serves as an additional liquidity control measure, as required by national regulation.

3) Are there any other LMTs or liquidity management measures commonly used by OEF managers?

The important considerations regarding the use of LMTs in the Brazilian market were described in the previous question. We aim to contribute to the debate, we note that it is internationally allowed in stress situations the possibility of adopting a double redemption gate, one in % of the fund's net assets, and another for shareholders.

In addition, we understand that closing/the imposition of restricting the fund to new investments at certain market periods could also be considered an anti-dilution liquidity management tool, as for example: (i) to not increase the concentration of allocation/distribution parties and avoid increasing the risk given the concentration of a single shareholder , aiming at diversifying the liability or (ii) In a situation of scarcity of securities in the market (for example, credit securities), keeping resources in repurchase agreements or acquiring securities at high prices can lead to a reduction in the fund's return, to the detriment of existing shareholders.

Recommendation 13: Effectively maintaining the liquidity risk management process with adequate and appropriate governance

4. Have the proposed changes covered all the essential elements regarding liquidity risk management governance arrangements in relation to the use of liquidity management tools and other liquidity management measures? Are they proportionate to the differing size and complexity of responsible entities' fund ranges?

Yes, we understand that the proposed changes cover the essential elements required for an effective governance of the liquidity risk management. Considering that the Brazilian regulation has recently allowed the funds to adopt redemption gates and side pockets, the provided guidance arrived at an opportune time to assist in the process of improving the governance requirements established in the self-regulation rules, in addition to encourage the use of these tools. In the self-regulation of ANBIMA, the governance requirements have already been incorporated, including the need of agreeing the use of the tools in the act that rules over the relationship between the administrator and the manager and to detail them in the liquidity management policy of the fund manager.

Regarding the redemption gates, the manager's liquidity management policy shall establish at least the following: (i) liquidity thresholds that authorize the asset manager to use the measure, as well as the methodology and criteria used for activation and removal of the gate, (ii) the procedures for operationalization of the redemption gates use, and (iii) the appointment of the forum(s), committee(s), advisory board(s), or equivalent body/ies responsible for making decisions on the activation of redemption gates. Regarding side pocket, the manager's liquidity management policy shall at least establish the following: (i) the conditions for creation of side pocket, (ii) the procedures adopted for liquidating the side pocket, (iii) the appointment of forum(s), committee(s), advisory board(s), or equivalent body/ies responsible for making decision on the side pocket creation.

However, as we are still in the beginning of the process of use, the rules are not yet specific in relation to the process of policy review and reporting frequency. In this sense, we consider that we have to work on improving the rules as we mature the use of tools, and IOSCO's recommendations are essential to guide us on this process.

Specifically, regarding the duty of the depositary or auditor who has to perform an independent audit of the governance framework, although such players does not exist in Brazil, it is performed by fund administrators who monitor and revise the liquidity guidelines of managers, thus being jointly responsible for the fund's liquidity management. In addition, investment funds in Brazil shall be yearly audited by external auditors who audit the fund accounts and documents assuring that everything has been performed over a year is in accordance with the mandate established in the fund's rules.

5. Please describe any material factors of the liquidity risk management governance and oversight arrangements which have not been included.

We would like to specify that in Brazil, the asset manager shall have a governance body, which comprises at least the Management and Risk directors, who are jointly responsible for the decision on the creation of a side pocket and the activation/barrier removal of the redemption gate.

Additionally, the institutions' liquidity manual must be made available in a public location on the manager's website and follow guidelines imposed by the CVM and ANBIMA self-regulation. Furthermore, institutions must send daily liquidity information to the CVM for supervision.

Recommendation 17: Disclosures to investors regarding the use of anti-dilution LMTs, quantity-based LMTs and other liquidity management measures

6. What information can (and should) be disclosed to investors or the public, and within what timeframe should this information be disclosed to enhance transparency when responsible entities activate quantity-based LMTs or other liquidity management measures?

We agree and defend that the transparency about the use of tools for investors or public is essential, and prospect investors should receive sufficient information before investing, including the portfolio liquidity profile and liquidity costs, in case the tool is used. These must be included in the fund documents, such as the rules, to ensure that investors are aware of the tools that may be applied and the aim of their applications. Also, when the decision for the tool activation is made, investors shall be informed. In the Brazilian market, both regulation and self-regulation provide for the rule that establishes the need for reporting the activation of redemption gates or creation of a side pocket as soon as the manager makes the decision through material fact, giving rise to wide disclosure to the market in general.

However, there is a concern that the detailed disclosure of the tools and the limits used immediately after the activation of the tool could allow manipulation by investors to the detriment of other investors, which would be contrary to the tool purpose and that could result in stigma or frontrunning, which could compromise the effectiveness of the tools. It could also discourage the use by managers in case investors have a negative perception of the fund, giving rise to herd behavior. To mitigate these risks, we agree with the recommendation of the consultation, that a delayed disclosure after applying tools could be included in the semi-annual or annual financial statements of the funds or on their websites.

Finally, we once again stress that the Brazilian investment fund structure through joint ownership has no independent decision-making boards. Thus, we value transparency, which in the case of the already regulated liquidity tools is provided by the fund's rules, detailed in the manager's liquidity management policy, and widely disclosed to the entire market upon activation through material fact.

7) No additional comments.

ANBIMA's reply to IOSCO's Consultation on the Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management

Proposed Guidance 1 – Determining asset and portfolio liquidity

To what extent does Proposed Guidance 1 help responsible entities to better integrate quantitative and qualitative factors to determine the liquidity of the portfolio? Have all the critical elements been captured?

1) The proposal relating to a quantitative and qualitative approach in the portfolio liquidity assessment process appropriately reflects one of the structural characteristics on which fund managers should base to carry out an appropriate liquidity risk management. However, by fitting all kinds of open-ended funds into three liquidity categories, the consultation might disregard important factors of the liquidity risk assessment process of a fund, such as the plurality of assets, strategies, the underlying asset´smarkets, and situations that can affect investor's behavior.

Therefore, we understand that to structure a robust liquidity risk management, not only the categorization of the liquidity of an asset should be considered, but also a wide range of factors and requirements should be observed when assessing the liquidity of an investment fund. As example, a fixed-income securitized product, such as Certificate of Real Estate Receivables (*Certificados de Recebíveis Imobiliários* in Portuguese, or CRI) may have low liquidity levels in the secondary market. However, the classification of this asset into the "illiquid" category would not have much sense if many fund managers were interested in trading this asset. Therefore, in this example, the lack of trade in the secondary market could result in a category classification that does not reflect the potential demand for such asset, if there were such trade.

With regard to the control over liquidity, in the Brazilian context, the rules of the Securities and Exchange Commission of Brazil (CVM), the securities market authority in Brazil, establishes the policies, procedures and internal controls to be followed by the participants to assure that the investiment fund portfolio is compatible with the terms established in its Bylaw in order to pay for redemption requests and meeting the fund´s obligation . This similar to IOSCO’s proposal for calculating the Average Daily Turnover to observe the length of time a certain asset would be convertible into cash for meeting its obligations with fund investors, on both normal and stressed market conditions.

Moreover, based on a methodology supported by quantitative and qualitative factors, ANBIMA, the Brazilian Financial and Capital Markets Association, determines the formulation of liquidity risk management policies that consider asset liquidity and the specific characteristics of investors, that is, a combined analysis of the fund’s assets and liabilities is required for purposes of establishing processes of continuous oversight and monitoring of the liquidity risks of the fund, as well as appropriately calibrating to which tools the fund could be submitted in exceptional liquidity situations. Further details on these methodologies will be described throughout this document.

Proposed Guidance 2 – Consistency between portfolio liquidity and redemption terms

2. Are there any additional considerations or examples that should be added in the Proposed Guidance 2 regarding consistency between portfolio liquidity and redemption terms?

We would like to add some of the Brazilian experience to the debate. In Brazil, there are four stages to be observed when designing the fund, as follows:

I. Definition of the target investors ;
II. General characteristics of the fund
III. **Consistency between investment policy and redemption rules;** and
IV. Metrics for liquidity management, of **both assets and liabilities of the fund.**

Although we agree with the consultation guidance, we emphasize that to provide consistency between the liquidity of a fund portfolio and its redemption rules, fund managers, shall not ratify the liquidity of an asset by implementing LMTs as part of its policy on regular risk management activity. That means that the liquidity level of the fund´s portfolio should not be justified by the sole prerogative to use anti-dilution or quantity-based LMTs. Likewise, we understand that the requirements for assessing the liquidity of the liabilities of a fund should also be considered, considering predictive models, as emphasized in the previous answer.

In this regard, we understand that the recommendation on the use of the anti-dilution liquidity management tools, for example, in the case of a small cap fund that is daily traded could lead to errors and inconsistencies between the actual liquidity that the fund provides as compared to its redemption rules.

When setting up the fund, fund managers shouldevaluate whether the redemption procedures are appropriate (dates of conversion and redemption payment, establishment of lock-up period for redemptions and use of liquidity management tools) to the asset liquidity characteristics according to the investment policy of the class and whether such procedures are compatible with its target investors, expectation on quantity and concentration of investors and distribution channels. For this purpose, ANBIMA's self-regulation determines a wide range of metrics to be evaluated during the dynamic analysis of liabilities (that is, investments and redemptions) and assets (that is, trading characteristics) of the fund, such as the following:

I. **For the asset**: cash flows of each asset, estimates of the trading volume in the secondary market of an asset, based on the historical volume, such historical volume being required to be discounted by a factor to be set in the policy, such as haircut, detailed description of the treatment given to the assets used as margins, adjustments and guarantees, as well as information in the policy about these assets shall be considered in the liquidity risk management, and also, as good practices, the carry out of liquidity analyses of the fund assets, not only from the individual perspective of each Fund, but also from the overall perspective of all funds under management, to measure if the supply of liquidity of the aggregate assets comprising the portfolios of its funds is sufficient to meet the demand for liquidity generated by the shareholders or unit-holders, among others.

II. **For the liability:** analysis of fund behavior based on the historical flows and likelihood of redemptions, analysis of the history of changes of each fund based on a quantitative benchmark for redemption flows of the market, preparation of a redemption probability matrix considering fund type, investor type and redemption period, among others.

Therefore, when carrying out predictive analyses of the risk posed by fund assets and liabilities, managers may reduce the probability of activating the mechanisms originally structured to mitigate material dilution. Accordingly, the fund's liquidity risk shall depend on its ordinary policies on liquidity risk management, rather than the tools comprising them.

As already emphasized, even though we agree that the liquidity management tools assist in mitigating the material dilution of investors in stress scenarios, we take this opportunity to reaffirm that in Brazil the ex-ante preventive mechanisms are prioritized over the active use of such tools for managing the fund's liquidity. Thus, since its design and in the best interests of shareholders or unit-holders, the managers are expected to perform daily monitoring based on quantitative indicators, such as the probability matrix of redemptions, and qualitative indicators, such as the monitoring of material facts involving the issuers and/or providers of the assets held by investment funds, and the institution's liquidity risk management policy to guarantee the formulation of solid and robust policies that aim to ensure consistency between the liquidity risk that a fund provides in relation to its redemption terms.

Proposed Guidance 3 – Overall framework for the design and use of LMTs and other liquidity management measures

3. Do you agree with Proposed Guidance 3 regarding the inclusion of quantitative LMTs and/or other liquidity management measures within the overall liquidity risk management framework that OEF managers should have in place at all times?

3) We do not agree with the guidance on inclusion of quantitative liquidity management tools at all times or for all investment fund types. In Brazil, despite of the recent regulatory frameworks that reformulated the investment fund industry, such as the Economic Freedom Act (13,874/19) and CVM Resolution 175/22, a fund, as provided by law, is recognized as a “pool of funds organized as a special co-ownership”, that is, the funds have no legal personality, and, for this reason, in the Brazilian context, the manager is required to have governance bodies formed by at least its Management and Risk directors to make decisions related to the use of liquidity management tools and other management measures, such as the creation of side pocket or the activation of redemption gates or barrier removal. In this sense, we stress that, as alternative to the active use of liquidity management tools as part of the risk management policy, the local market use daily and predictive controls, as previously described in this document, to structure a liquidity risk management policy that is solid, robust and consistent with the current governance framework of Brazil. Accordingly, in the scope of the rules established in the local market, the fund regulations that provide for the likelihood of using the liquidity management tools allowed by the rules shall use such measures only and solely in scenarios other than the normal day-to-day activities of the fund, and not as part of the ordinary risk management policy of investment funds.

4. Is Proposed Guidance 3 appropriate for all types of OEFs in its scope, and proportionate for all types of responsible entities to implement? If not, please explain.

4) Yes, we understand that the elements stated in the consultation shall be considered for all types of open-ended funds, however, they shall not be necessarily applied on all open-ended funds. As previously emphasized, one of the main fund design stages is the requirement for assessment of the risk posed by assets and liabilities, thus allowing the manager to appropriately calibrate the mechanisms that will be adopted for managing the fund’s liquidity risk at moments of stress. So, to make the tools to be implemented compatible with the risks associated with a certain fund, when setting it up, the liquidity management policies become a fundamental part of the process of calibration of the mechanisms that could be used in extraordinary liquidity events.

Proposed Guidance 7 – Types of Quantity-based LMTs and Other Liquidity Management Measures 5. Has the proposed guidance identified all of the quantity-based LMTs and other liquidity management measures commonly used by responsible entities? Are there any other LMTs that share the same objectives and that could be included in this guidance? If so, please describe them.

5) The other possible liquidity management tools and metrics that could be included in this guidance are the following:

I. ***Ex-ante* Analyses:** preventive modelling, liquidity index calculation, redemption probability matrix, aggravating and mitigating scenarios for liquidity calculation models;
II. **Limitation to investor shareholder or unit-holder concentration (prudential limit):** reduce the exposure to large individual investors to avoid large simultaneous redemptions;
III. **Limitation to exposure to assets or issuer:** ensure that the fund exposure to certain assets or issuers does not compromise the capacity of meeting redemptions in stress situations; and
IV. **Closing of share or unit class:** the fund may occasionally close for investment and be open only for redemption.

This liquidity management and considerations of limit and leverage are used in the Brazilian market.

6. Are the identified quantity-based LMTs and other liquidity management measures described correctly? Do the features or characteristics of the different tools and measures vary or do they generally operate as described?

6) In relation to liquidity management measures, we understand that the definitions on the (i) suspension of redemptions and subscriptions; (ii) redemption gates; (iii) extension of notice periods; (iv) extension of settlement periods; (v) side pocket; and (vi) redemption in-kind are accurately described.
In relation to the extension of the notice period, we understand that it would be important to recommend that entities should publicly disclose the trigger for the extension of notice period.
By simulating stressed market conditions, we had doubts if in certain circumstances it would be possible to simultaneously use quantity-based tools, and we would like an IOSCO recommendation on this issue, including considering, if possible, the behavioral particularities of market players in their respective jurisdictions.

Sharing the Brazilian experience, as to the variations or operation of quantity-based tools, we did not have many time yet to evaluate in large scale in our market, because the redemption gates and side pocket were incorporated into the regulation at the end of 2022, and we are in the phase of adaptation in the Brazilian market.

After analyzing the example provided by the Guidance about other liquidity management measures, which mentions the possibility of credit facilities and borrowings, we shall mention that although Brazilian investment funds are not allowed to directly borrow, some funds may assume Exposure to risk of capital, observing the maximum limits established in Resolution 175, mainly controlled through gross margin in transactions with derivatives.

CVM Resolution 175 also establishes specific limits to gross margin, which vary according to the fund type, such as the following:

I. For the "Fixed Income" class type, the gross margin is limited to 20% (twenty percent) of the net assets of the class;

II. For the "Foreign Exchange" or "Stock" class type, the gross margin is limited to 40% (forty percent) of the net assets of the class; and

III. For the "Multi-asset" class type, the gross margin is limited to 70% (seventy percent) of the net assets of the class.

In addition, CVM clarified that the funds may use a new capital risk measurement metric, establishing the concept of RCF (Capital Risk of the Fund). This metric meets the market's demand for using a measurement that represents the market risk of the fund portfolio in the control over the maximum gross margin limits, replacing the required margin, added to the potential margin, of the administrator's responsibility regarding the transactions made without guarantee and/or out of the organized market.

Both metrics aims at controlling the maximum limits to the use margin to assure risk management in relation to leverage.

We may also mention an operation allowed in the Brazilian market that simulates direct borrowing, the repurchase agreements – Repurchase (Repo) of a certain asset, which from the buyer's perspective is known as reverse repurchase (Reverse Repo), and that, depending on its structure.

7. What additional key elements should Proposed Guidance [7] take into consideration regarding the use of each quantity-based LMT and liquidity management measures identified? Are there any particular types of OEFs that are not suitable to use some of these tools and measures?

7) For extraordinary liquidity situations, we maintain the understanding that the quantity-based tools, such as redemption gates, or other liquidity management measures, such as side pockets, provide a fairer response to the situation from the perspective of fair treatment of fund shareholders as compared to priced-based tools.

In relation to the issue of having any specific type of open-ended fund that is not appropriate to use some of these tools, we did not see any restriction, however, it is necessary to observe the investor profile, the asset composition, and the liquidity rules of funds to make liquidity management decision. In the Brazilian case, in the funds that have corporate bond assets, for example, the use of side pockets is more recommended, as the trading in secondary market is more illiquid, given the nature of the assets.

8. Do you have any practical examples on the use of these quantity-based LMTs and other liquidity management measures that could be included in the implementation guidance?

8) We do not have any consideration or additional practical examples to complement the proposed guidance.

Proposed Guidance 8 – Appropriate Activation and deactivation of Quantity-based LMTs and Other Liquidity Management Measures

9. Do you agree with Proposed Guidance 8 regarding the considerations on activating and deactivating quantitative LMTs and/or other liquidity management measures? Are there any additional key elements that responsible entities should consider in this regard?

9) Regarding the suggested governance processes for activating and deactivating the quantity-based tools and/or other liquidity management measures, the consultation’s proposed guidance significantly includes what the Brazilian market has implemented after the

CVM Resolution 175/22 came into effect, which enabled the use of redemption gates and side pocket. Considering ANBIMA's self-regulation rules, the manager's obligations with respect to the establishment of the use of liquidity management tools allowed by the current CVM regulation include the following:

I. The possibility of use in the fund documents, including the institution's liquidity management policy, the fund's rules and the "agreement between the essential parties[1]";

II. Details of the characteristics of the tools, as well as of the procedures that regulate their use; and

III. Ensure that the tools are used only in extraordinarily liquidity situations.

Thus, we agree with the consultation's eighth proposed guidance, as establishing minimum governance criteria and parameters to be observed for activating and deactivating liquidity management tools helps to decrease the negative impacts on both industry and fund investors.

Additionally, we emphasize that, in the case of redemption gates, detailing the characteristics and conditions for the use of quantity-based tools includes, among others, the percentage of net assets of the fund in stress situation for limitation to redemption requests, estimate of the maximum term for maintaining gates and review of intermediate periods for the manager to indicate whether the limitation on redemption gates shall be maintained or not during the period when they are activated, thus aligned to the recommendations provided in this guidance.

[1] The operation of the Investment Fund is materialized through the work of its Essential Service Providers, so defined as the Fund Administrator with Fiduciary duties and the Fund Manager, as well as the third parties engaged by them, in writing, on behalf of the Investment Fund. In this sense, the Fund Administrator with Fiduciary duties and the Fund Manager shall enter into the "agreement between the essential service providers" which shall establish the conditions, responsibilities and operational routines (including the exchange of information and communication between them) that shall guide the performance of their respective activities on behalf of the Investment Fund, in line with the respective Rules, and, where applicable, with ANBIMA's self-regulation rules, without derogating from the provisions of the regulation in effect.

Proposed Guidance 9 – Stress Testing

10. Do you agree with the stress testing elements identified in Proposed Guidance [9]? Are there any additional considerations or good practices that should be covered v by this section?

10) Yes, ANBIMA agrees with the elements and use them in the Brazilian fund industry.

Moreover, we would like to address some elements that we use in stress scenarios. CVM establishes that the fund manager shall submit the asset portfolio to periodic stress testing, in scenarios that consider at least liability flows, asset liquidity, obligations and settlement of share or unit class. In addition, ANBIMA included the need for anticipating the behavior by investor type and fund type, and the concentration of allocators/distributors in the stress testing analysis. For example, the analysis of possible redemption scenarios considering the biggest shareholders of the fund, that is, the liability flows or stress scenarios considering shocks to asset liquidity and how the liquidity would behave.

Another element would be according to the Liquidity Management Rules and Procedures that include the development of supply and demand indicators estimated by liquidity related to different time horizons ("vertices"),and aim to assure their compatibility. The preventive and predictive analyses and the development of the respective soft limit and hard limit indicators should be described in each institution's own methodology, and be an integral part of such document.

To develop indicators of demand estimated by liquidity, known information is incorporated into future redemption estimates as well as the costs and obligations incurred by the fund, among which are the transaction costs, margins and guarantees. The following should be considered: (i) redemption orders already known and pending settlement; (ii) expected redemption amounts under normal market conditions, calculated based on own and verifiable criteria; (iii) share or unit concentration level by shareholder or unit-holder; (iv) redemption settlement periods; (v) concentration level of allocators, distributors and/or other asset/fund managers, and analysis of the expected behavior of such agents; and (vi) segment of fund investor (e.g. retail, private, institutional, among others). To assist in this process, ANBIMA monthly releases the redemption probability matrices by vertices of time and different fund classes (stocks, foreign exchange, multi-asset, fixed income,) and by investor type (retail, institutional, among others).

The use of this liquidity management monitoring model in local funds fosters innovations in relation to the traditional metrics based only on the liquidity of fund assets. Even when we observe the use of parameters of liquidity risk of liabilities, the attempt to use metrics applicable to market risk is common, such as the Liquidity-adjusted VAR and Liquidity Stress, adjusted to liquidity risk management. However, such methodologies do not capture the recent changes or the those in progress in investor behavior. In other words, there is no way to justify that the past behavior of investors in a certain fund will repeat in the future, as the composition of investors (amount and type) constantly changes, as well as their behavior according to the market conditions.

It should be noted that the funds that have the same portfolio composition, but different liability (of investors) composition, pose different liquidity risk. In the case of Brazil, the self-regulation thus aimed to adopt metrics that are more predictive, that is, that aim to estimate the behavior of redemptions by investors in the future, based on a picture of the investor type that the fund has in a certain day multiplied by the matrix of market redemption probability. This analysis enables, for example, the consideration of daily changes in investor concentration in the fund so that adjustments in the portfolio composition are made.

Finally, the methodology could also consider mitigating or aggravating factors that affect the liquidity estimate. In the first group are the examples of settlement or lock-up periods, the availability of tools such as exit fee or gates, and share . In the case of aggravating factors, it is worth noting the status of fund closed to new investors, negative funding trend, liability concentration, among others.

In relation to the aspects described in the Guidance of governance and documentation, we highlight that the Brazilian regulatory authority monthly requires the stress testing of own scenarios for inspection of results. Fund managers shall maintain complete stress testing records and be prepared to face questioning by regulatory authorities.

Other

11. Do you have any practical examples regarding governance arrangement and disclosure about the use of LMTs and/or other liquidity management measures that could be included in the implementation guidance?

11) Regarding the formulation of liquidity risk management policies, we highlight that, in Brazil, the regulatory and self-regulatory provisions establish a series of corporate governance processes to assure fair, equal and transparent treatment among the investors of investment funds.

The CVM, for example, establishes the formulation of policies, procedures and internal controls that shall consider at least the concentration of shareholders, asset liquidity, rules of redemption payment, and expected redemption amounts under ordinary conditions. In addition, ANBIMA requires additional items of analysis, such as the concentration of allocators and distributors, expected investor behavior by fund type, and also assigns to the manager the responsibility for implementing and maintaining, in a written document, the liquidity management policy that establishes the rules, methodology, organization structure and governance framework, as well as the internal controls of the liquidity risk management of the funds under management.

Despite of the rules already established through self-regulation, we take this opportunity to highlight that ANBIMA will continue to hold discussions aimed at improving and standardizing the rules on the use, governance arrangements and methodologies for calculation of liquidity management tools, mainly regarding the new types of funds and assets derived from both the evolution of regulation and Brazilian capital markets over recent years, including more emphasis on those that have greater potential of causing harm on scale.