General questions:

Q1. Do you agree that the 2013 CIS Principles and the 2007 Hedge Fund Principles should be merged into a combined set of Recommendations?

AFG response

Yes. It's good practice to have comprehensive set of recommendations, treating all the relevant subjects in one place.

In any case, it is critical to ensure a level playing field at global level between the various regional approaches, i.e. at regional levels the IOSCO Recommendations should apply to the same scope of regional funds (e.g. on hedge funds, private funds, closed-ended funds, ETF, etc.).
For instance, in §12 it is said that in the US, interval funds are classified as closed ended. To ensure a level playing field, it should be added that similar funds in the EU should also be classified in the same way.

Q2. Do you agree with the scope of the Recommendations to focus on registered / authorized / public OEFs and is it sufficiently clear?

AFG response

No.
The scope should be clarified, simplified to only "Open ended funds", as "registered" "authorized" could have different meanings in different jurisdictions, as IOSCO recommendations must create a level playing field within jurisdictions and avoid discrepancies in their application.

As the US hedge funds and private funds are explicitly mentioned as excluded in footnote 11, we are supporting that similar EU AIFs should also be explicitly mentioned.

Q3. Do you agree with the proposed scope of registered / authorized / public OEFs ? Similarly, should there be any changes to the scope of Other Funds ?

AFG response

No, as we said in the previous answer, the proposed scope should be clarified to all OEF.
Also, in the definitions proposed in this report, we would make two comments:
On the definition of private assets, infrastructure and real estate should be included, in order to be comprehensive.

In the definition of illiquid assets, the use of the word "difficult" should be avoided as it is a subjective word. Usually, selling illiquid asset takes time, but it is not necessarily difficult to do so. Also, the selling could potentially have an impact on the market (as the definition of a liquid market is usually that it is possible to sell without any impact).

Q4. In order to facilitate flexible implementation, do you agree that the Recommendations should only serve as good practices (please refer to footnote 14 above) to Other Funds?

AFG response

It should be avoided in our view, as it would create confusion overall and impair the level playing field. As we said above, these recommendations should apply to all OEF, without having the possibility to create exemptions, considering there is no strict definition for those "other funds".

In the EU, the same rules apply to all EU AIFs (including EU AIFs which are not open-ended). Why couldn't IOSCO Recommendations apply to the whole range of funds in all regions (except where more specific IOSCO Recommendations apply, such as for MMFs)?

Q5. Do you agree that MMFs should be out of scope?

AFG response

Yes, as there is a specific IOSCO Recommendation which apply to MMFs.

Q6. Should ETFs be in or out of scope ? Should only certain types of ETFs be included, such as ETFs that transact primarily on a cash basis but not in-kind ETFs ? Are there any specific Recommendations that are not applicable to ETFs ?

Should the Recommendations only apply as good practices to ETFs, to allow sufficient flexibility given the distinct characteristics of ETFs ?

AFG response

In European Union, ETF are mostly compliant with UCITS directive and fall under the rules set out in this directive. Consequently AFG considers that ETFs should be in the scope of valuation recommandations from the IOSCO report.

More generally, ETFs are funds and as such they should be submitted to the same set of rules as other OEFs. ETFs are primarily funds from a legal standpoint, that are listed on the stock exchange, but there is no clear objective element that justifies a specific treatment of these funds compared to others.

In Europe, since ETFs are UCITS funds, they are subject to the same rules as their non-listed counterparts. It should be noted that they can also be purchased at the NAV, and this without any listing.

Policies and governance:

Q7. Have the key elements of documented policies and procedures been captured?

AFG response

Yes

Q8. Do you agree that a valuation committee or equivalent arrangements may be helpful?

AFG response

Yes

As long as equivalent arrangements are kept

Q9. Have the key features for the structure and responsibilities of a valuation committee or equivalent been accurately described ? If not, what changes or additions should be included ? Are there any other good practice examples for a valuation committee that would be useful to include ?

AFG response

Yes

Q10. Do you agree with the proposed approach to stressed market conditions and exceptional circumstances ?

AFG response

Yes

Q11. Are there any other good practices or examples of governance practices under stressed market conditions that would be useful to include ?

AFG response

No

Conflicts of interest:

Q12. Do you agree with the overall framework that conflicts of interest should be identified and documented, and conflicts of interest that cannot be avoided are to be mitigated, managed and monitored, and disclosed ?

AFG response

Yes.

But the level of transparency cannot be a "one size fits all". Full disclosure is of course due to the regulator, but for the investors or to the public, an appropriate disclosure level must be followed, in particular due to the risk of disclosing sensitive information to competitors.

Q13. Do you agree with the list of conflicts and mitigations ?

AFG response

Yes.

It must be noted that a sound regulatory framework is already in place in the EU, both for UCITS funds as well as EU AIFs, addressing the risk of conflict of interest regarding funds' valuations.

Methodology:

Q14. Do you agree with the guidance set out in relation to fair value, methodology selection and use of amortised cost ?

AFG response

AFG agrees with the provisions set out in the methodology section.

Regarding the use of amortized cost, AFG believes that OEFs should opt for a valuation methodology which takes into account the evolving market conditions (interest rates, credit spread, …). This is a necessary condition to ensure that investors (transacting or remaining) are equally treated.

In limited circumstances where amortized cost method is used, the risk of mispricing the OEF must be carefully monitored with the view to ensure the fair treatment of the investors.

Conversely, with respect to closed-ended funds, AFG believes that the amortised cost method can be considered.

Regarding open-ended Fund of Funds, where the shares of underlying funds are listed and actively traded (e.g. ETFs or listed closed-ended funds), the last available market price should not be used for fund valuation, contrary to the point 2) from the Box 1. The NAV still represents a negotiable price up to date which can be very different from the last available price. The latter do not necessarily consider the time zones in the case of global indices.

ETFs are funds, from a legal perspective. Even though they are listed on the stock exchange, an ETF can be traded over-the-counter (OTC) and at net asset value (NAV) The NAV is calculated every day whether there are transactions or not ; it remains the price reference for the fund.

The way orders are placed against the fund on the primary market (cash vs in-kind) does not directly affect the ETF valuation process (this is particularly true for passive or index ETFs)

Q15. Do you agree that back-testing and calibration can be important tools to test the appropriateness and accuracy of fair value methods and processes ?

AFG response

Yes.

Q16. What other tools should be highlighted in this report that responsible entities could use to review their valuation methodologies ?

AFG response

An important action would be the recommendation to use international standards such as IFRS by all jurisdictions to tackle critical notions such as fair value.

Q17. Are there any other good practice examples, including in applying fair value adjustments that would be useful to include here ?

AFG response

No.

Q18. Are there any other considerations for pricing overrides?

AFG response

No.

Consistent application and periodic review:

Q19. Are there any other considerations for consistent application of valuation policies and procedures?

AFG response

No.

Q20. Are there any other key considerations for periodic review of valuation policies and procedures that should be addressed?

AFG response

No.

Use of third-party valuation service providers:

Q21. Do you agree with the overall framework for the use of third party valuation service providers, including specifying the use of third party valuation service providers in the valuation policies and procedures, undertaking due diligence and exercising appropriate oversight?

AFG response

Yes. But it should be noted that:

- The due diligence process required from responsible entities cannot be required in an absolute way. If the given provider makes itself use of underlying providers in a chain, there should be a limitation of responsibility in terms of due diligence to be carried out by the responsible entities themselves.

- Some limitations on due diligence should also be given in case a given provider shows reluctance to fully open its way of functioning. So, some appropriate and new IOSCO's Recommendation should apply to those providers, to make them responsible if they show reluctance to let the responsible entities carry out their due diligence on them.