

AMF Instruction
Conditions for setting up redemption gate mechanisms -
DOC-2017-05

Reference texts: Articles L. 214-7-4, L. 214-8-7, L. 214-24-33, and L. 214-24-41 of the Monetary and Financial Code and Articles 411-20-1 and 422-21-1 of the AMF General Regulation

This instruction applies to asset management companies that manage a UCITS, retail investment fund (FIVG), private equity fund (FCPR, FCPI and FIP), professional private equity investment fund (FPCI), or employee investment scheme, and that are considering setting up a redemption gate mechanism.

It supplements AMF Instructions DOC-2011-19, DOC-2011-20, DOC-2011-21, DOC-2011-22 and DOC-2012-06.

Funds can use gates to spread out redemption requests over multiple net asset values (NAV) when requests exceed a given, objectively calculated level.

The collective investment undertaking must adopt gates that are compatible with its liability management procedures. Thus, before introducing gates, the management company must consult with its depositary and any affected service providers to ensure that the proposed mechanism is compatible with their mechanisms for processing transactions and communicating with holders.

While the redemption gate mechanism is not intended as a routine liquidity management tool, it may do a better job of protecting unit holders' interests than a complete suspension of redemptions.

1. Description of the gate mechanism in the prospectus and in the rules or articles of association

The existence of a gate mechanism and a detailed description of the procedure must be included in the fund prospectus and in the fund's rules or articles of association. When a fund publishes a KIID, it must mention the caps on redemptions and refer readers to the more detailed description in the prospectus and the rules or articles of association.

2. Notifying unit holders when there is a change in the rules or articles of association of an existing collective investment undertaking to include the option of gating redemptions (not applicable to FPCIs)

The adoption of redemption gates and any changes to the mechanism in the rules or articles of association of an existing collective investment undertaking must be **approved by the AMF and must be announced to holders, who may exit the undertaking free of charge.**

This provision does not apply to professional private equity funds.

3. Threshold for applying redemption gates

3.1. The threshold must be specified in the rules or articles of association of the collective investment undertaking

The threshold for applying redemption gates must be explained with regard to the undertaking's frequency of NAV calculation, management strategy, and the liquidity of the assets in its portfolio. The threshold must not be set in a way that jeopardises a holder's ability to redeem units or shares under normal market

conditions. The threshold must be specified in the rules or articles of association of the collective investment undertaking.

For example, a collective investment undertaking whose net asset value is calculated monthly is deemed to meet this requirement by setting a threshold at 20% of net assets. Setting a gate at 0.5% of each daily net asset value would not enable holders to redeem their units or shares.

For illustrative purposes, the table below shows the threshold levels that would respect this principle:

NAV frequency	Gate threshold (as a percentage of net assets)
Daily	5%
Weekly	10%
Bimonthly	15%
Monthly	20%

The management company may justify the threshold in terms of the collective investment undertaking's strategy and the underlying assets in its portfolio.

3.2. Calculating the threshold in the event of gating

As a reminder, the threshold for applying a gate corresponds to the ratio between:

- the difference – on the same centralisation date – between the number of redemption requests for units or shares in a collective investment undertaking, or the total amount of the redemptions; and the number of subscription requests for units or shares in the same collective investment undertaking or the total amount of the subscriptions; and
- the net assets or the total number of units or shares in the collective investment undertaking, or the sub-fund in question.

The threshold above which orders will not be executed must be determined immediately following the centralisation date so that unit holders affected by the gate can be notified of the fact as soon as possible, allowing them to revoke the unexecuted portion their order if they wish to do so and if the rules or articles of association allow it, and provided the notice period is respected.

Collective investment undertakings that have multiple classes of units must set the threshold for applying gates at the same level for each class. The calculation for applying the gate must be performed as soon as order centralisation is completed, but the redemptions net of subscriptions are to be expressed as an amount – i.e. the number of units multiplied by the most recent NAV – and then compared with the net assets at the time of the previous valuation date for the entire collective investment undertaking, and not compared with the NAV of the unit class.

In cases where an indicative NAV is calculated, it can be used to calculate the threshold. In general, the management company must perform the adjustments it deems necessary to determine the reference NAV so as to account for information it has obtained since the previous NAV calculation. However, net redemptions (numerator) and net assets employed (denominator) must be calculated the same way, and must notably be based on the same NAV.

Round-trip transactions involving the subscription and redemption of an equal number of units, using the same NAV and for a single holder or beneficial owner, may be excluded from gating if the rules or articles of association specify such. This provision makes it possible to avoid splitting the redemption order of a holder conducting a round-trip transaction, given that the equivalent subscription order neutralises the impact of the redemption order on the collective investment undertaking.

4. Applying gates

The management company is responsible for deciding whether or not to apply the redemption gate mechanism specified in the rules or articles of association of the collective investment undertaking. The Monetary and Financial Code states that in making its decision, the management company must show that, “it is necessary owing to exceptional circumstances and to protect the interests of the unit holders, the share holders, or the public”. The AMF General Regulation states, “This is the case notably when – independent of the normal execution of the management strategy – redemption requests reach a level that, given the liquidity conditions of the assets of the SICAV, the fund, or one of its sub-funds, the requests cannot be satisfied under conditions that protect the interests of holders and ensure their equitable treatment, or when redemption requests are made under circumstances that pose a threat to market integrity”.

When redemption requests exceed the threshold for applying the gate, the management company may decide to satisfy redemption requests above the proposed cap and thus execute some or all of the orders that may otherwise have been gated. For example, if the redemption requests for units in a collective investment undertaking total 15% of net assets, whereas the gate threshold is set at 10%, the management company may decide to satisfy redemption requests up to 12.5% of net assets, and thus execute 83.3% of redemption requests instead of 66.66% if it has strictly applied the gate at 10%.

In these cases, the management company must document its decision and the conditions that led it to apply the gate (or not apply the gate even though the threshold in the rules and the articles of association was reached) and make the documents available to the AMF. In particular, in cases where it decides to apply the gate, the management company must justify its assessment of the market conditions that led to its decision.

Furthermore, the gates must be applied in the same manner to all unit holders that submit a redemption request in respect of the same NAV, because the company must respect the principle of equal treatment of holders and avoid conflicts of interest in its implementation of the gates.

5. Notifying the AMF when a gate is applied

As soon as it applies a gate, the management company must **notify the AMF of the fact as soon as possible**. As a reminder, pursuant to Articles L. 621-13-2 and L. 621-13-3 of the Monetary and Financial Code, the AMF may “require the gating or suspension of redemptions of units or shares of a collective investment undertaking to be ended or the use of such gates or suspensions to be temporarily limited if necessary to protect the interests of unit holders, shareholders, or the public”.

6. Notifying holders and the public when a gate is applied

Holders whose orders have been partially gated must be **notified of the fact** as soon as possible. If the collective investment undertaking’s rules or articles of association allow holders to revoke the unexecuted part of their orders, the notification must state this and must be sent to the holders soon enough that they may request the immediate or delayed cancellation of the carry-forward.

Other holders of the collective investment undertaking, the public, and potential investors must also be notified that a gate has been applied, by a means of the company’s choosing. At a minimum, the fact must be explicitly stated on the asset management company’s website.

And lastly, notification of the gate’s application must be made to **all unit holders or shareholders of the collective investment undertaking in question at the time of the next periodic disclosure.**

7. Maximum duration for applying gates

Redemption gates may only be applied temporarily.

Furthermore, if no priority right is assigned to orders that are carried forward, an order may be carried forward and spread over several NAVs. Thus, unit holders need transparency on the duration of the redemption gates.

As a result, the rules or articles of association of the collective investment undertaking must specify the maximum duration of the gate. The duration must be explained with respect to the frequency of the collective investment undertaking's NAV calculation, its management strategy and the liquidity of the assets in its portfolio. The number of NAVs must not exceed what is specified in the table below as a function of the frequency of the collective investment undertaking's NAV calculation:

Frequency of NAV calculation	Maximum number of net asset values (NAV) for which a redemption gate may be applied	Estimate of the maximum gate period
Daily	20 NAV over 3 months	1 month
Weekly	8 NAV over 6 months	2 months
Bimonthly	5 NAV over 6 months	2.5 months
Monthly or less	3 NAV over 6 months	3 months

When the time limit set in the rules or the articles association is reached, if it has not already done so, the management company must put an end to the gate and consider alternative exceptional solutions, which may include – notably – the suspension of redemptions or the liquidation of the collective investment undertaking.

8. Processing and carrying forward unexecuted orders

The management company must determine and specify in the collective investment undertaking's rules or articles of association whether unsatisfied redemption requests will be cancelled or automatically carried forward to the next NAV, in light of the overall liquidity management scheme. It must also take into account the risk that carry-forward procedures might encourage holders to place redemption requests early or submit larger orders than they would otherwise have done because they know that orders will be partially executed. Moreover, as regards the possibility of revoking unexecuted orders, the management company must check the operational feasibility of the selected arrangements with affected parties (depository, transfer agent, etc.).

Processing and carry-forward procedures must meet the following criteria:

- Redemption orders must be satisfied in the same proportion for all holders requesting redemption since the previous centralisation date. When requests exceeding the threshold set for gating are not satisfied, the rules for reducing orders must ensure equal treatment among the redeeming holders;
- Unexecuted redemption orders are cancelled or automatically carried forward to the next NAV;
- The portions of redemption requests that are not satisfied and automatically carried forward may be revoked by the holders who submitted them, under conditions specified in the rules or articles of association. If the management company gives holders the option to refuse the carrying forward of unexecuted orders, its operating methods must clearly distinguish between orders that have been carried forward and those that have been revoked (when a holder refuses the carrying forward) in a manner that respects the notice period stipulated in the rules or articles of association.

If a collective investment undertaking's NAV is calculated more than once a week, the management company may not allow the automatic cancellation of the unsatisfied portion of the redemption request. In this case, the unexecuted part of the order is carried forward to the next centralisation date unless – under conditions detailed in the rules or articles of association – the holder refuses to have their order carried forward.

- Orders that are carried forward do not have priority over new redemption orders submitted for execution at the next NAV. If redemptions are split again at this NAV, they shall be split according to the same conditions as new orders.

Whether or not holders may revoke the unexecuted part of an order depends upon the frequency of NAV calculation and the notice period required. The management company must therefore establish operating procedures that allow it to identify redemption orders that are carried forward in compliance with the notice requirements set out in the rules or articles of association.

9. Cancellation of orders ex post and notification about the level of orders

The management company must ensure that there is no possibility of modifying orders after the centralisation date, including through cancellation requests, which could be considered as equivalent to late trading. The management company must not disclose information about the level of incoming subscription and redemption orders that might enable holders to obtain information about the likelihood of gates being activated.