



Redemption restrictions as a new liquidity management tool of the German Investment Act (KAGB) - practical guidance (December 2021)

An investment management company (KVG) must have in place an adequate liquidity management system and effective procedures for each investment fund, which take into account the investment strategy, liquidity profile and redemption policy of each fund. These must ensure, among other things, that the KVG takes account of, and implements, the tools and arrangements necessary to manage liquidity risk. Since 28 March 2020, additional liquidity management tools (LMTs) such as redemption restrictions, swing pricing and notice periods have been available in the German capital investment act (KAGB), which are principle-based and therefore can be flexibly designed in practice. These serve to improve the liquidity management of open-ended investment funds and to strengthen Germany as an investment fund location. The following comments summarise the results of an extensive exchange between the BVI, the German Banking Industry (DK), representatives from practice and the BaFin (hereinafter: circle of associations) and are intended to facilitate the implementation of the redemption restriction in practice.

I. Expectations and timetable

The Financial Stability Board (FSB), IOSCO, the ESRB and ESMA are urging the rapid implementation of LMTs in order to reduce the potential risk of future financial crises as a result of liquidity mismatches in open-ended funds. The LMTs are another important component in the liquidity management process of a KVG, which is intended to prevent a redemption suspension (fund closure) in the interest of investors. Compared to fund closure, LMTs are to be regarded as a milder measure, i.e. they are used to avoid fund closures. Nevertheless, the practical implementation of redemption restrictions in particular is complex and does not depend solely on the individual risk appetite and the investment strategy of the respective funds. In the automated world of mass business in mutual funds, the operations of the entire process chain must be automated between KVG, depositaries and custodians and the relevant steps must be coordinated. We are aiming for technical implementation by 1 January 2022. However, this does not prevent a KVG from introducing the redemption restriction earlier on a case-by-case basis (especially for funds that do not rely on complex and automated settlement processes); in this case, it is the responsibility of the KVG to agree on the procedure with the depositary and the custodians. This guide is therefore intended to provide practical orientation for all market participants in the entire process chain when implementing the redemption restriction, primarily in mutual funds.

II. Durable medium

According to information from BaFin, no durable medium is required for amendments to the investment fund rules to introduce the redemption restriction. Pursuant to Section 163 (4) sentence 2 KAGB, investors in mutual funds must be informed of material changes to the investment fund rules by means of a durable medium. From BaFin's point of view, the introduction of the redemption restriction in existing investment terms and conditions is in principle a material change of investors' rights. However, following the sense and purpose of the regulation on the use of a durable medium, whether it is needed or not depends on whether the change is disadvantageous. Since the redemption restriction, as an investor protection measure, is designed to prevent a suspension of redemption, such a change cannot be regarded as disadvantageous for the investor in question.

III. Redemption restriction ("gating"): legal basis

Pursuant to section 98 para. 1 b KAGB, a KVG may agree with the investor in the investment fund rules that the investor's right to redeem units at least twice a month (in practice often on each trading day), enshrined in section 98 para. 1 KAGB, may be restricted for a short period of time. The prerequisite is that the investor's redemption request exceeds a previously determined threshold value above which, in the interest of the investors as a whole due to the liquidity situation of the assets of the investment fund, the redemption request can no longer be executed. This measure may last for a maximum of 15 consecutive business days. If the KVG makes use of a redemption restriction, it must immediately inform BaFin of the activation and its lifting and, in the case of mutual funds, also publish this on its website.

This measure is currently permitted for UCITS, mixed investment funds and special funds. For other types of open-ended investment funds such as other investment funds, funds of funds, real estate funds and hedge funds, the corresponding special regulations on liquidity management shall continue to apply as *leges speciales*.

IV. Solution based approach for the German market: pro rata approach with expiry of residual orders

After weighing up all the advantages and disadvantages of various solutions, the German investment fund industry, together with DK and BaFin, agreed on the pro rata approach with expiry of the residual order as a target-oriented solution for the German market. According to this, the investment fund rules must provide that if a threshold value is exceeded, the KVG is entitled to redeem the units at the redemption price applicable on the settlement date only on a pro rata basis; beyond that amount, the KVG must under its rules reject the redemption orders and the redemption obligation does not apply. This means that each redemption order is only executed on a pro rata basis dependent on a quota to be determined by the KVG. The unexecuted part of the order (the residual order) will not be executed by the KVG at a later point in time, but will lapse in accordance with the provision in the fund's investment rules.

Example: UCITS X has agreed with its investors that the redemption of units may be restricted if the investors' redemption requests exceed a threshold of ten per cent of the NAV on a valuation day. The redemption restriction may last up to a total of 15 business days; however, the liquidity situation and any resulting restriction must be determined on a daily basis (in the case of redemption on each trading day). On day 0, the NAV is 10,000. On day 0, the custodian places client orders for investment fund X in the amount of 2,000 (here: 20 per cent of the NAV). The investors' redemption requests exceed the fixed threshold of ten percent (1,000) by 1,000. After assessing the liquidity situation of the fund, the KVG activates the redemption restriction in the interest of the investors and limits the orders for day 0 to 1,000. Thus, the order received on this day cannot be fulfilled beyond 1,000. BaFin and the investors are informed of this on the website. In the order processing, the placed orders for day 0 are served proportionately in the amount of 50 percent (1,000) (the same for each order). The remaining orders in the amount of 50 percent (1,000) expire.

For the orders received on the following day (day 1), the KVG must reassess whether the redemptions for day 1 will be restricted again. The investor has the option to request the KVG to redeem investment fund units again on the next earliest settlement day (Day 1). The KVG therefore decides on each trading day (in the case of a daily redemption option) whether and on the basis of which quota it restricts the redemption. The KVG may restrict redemption in this way for a maximum of 15 consecutive business days.

V. Measures at the level of the KVG

1. Discretionary power of the KVG: The decision as to whether and in which situations the redemption of units is to be restricted lies within the duly exercised discretion of the KVG. A double discretionary power applies:

a) Decision on the use of gating: First of all, the KVG has to decide whether the investment fund may use the redemption restriction in principle and whether the investors and the KVG have agreed to it in the investment conditions. In view of the ESMA analyses on the market situation and the ESRB recommendations, in addition to the required investor protection, BaFin expects the KVG to include the possibility of using redemption restrictions in principle in the investment fund rules of the respective mutual funds. In principle, BaFin assumes a reverse rule-exception relationship. In this case, there would have to be adequate reasons that gating has no added value for liquidity management and that a KVG does not implement it in the investment fund rules.

Practical advice: The following cases illustrate by way of example where gating can regularly have no added value for liquidity management:

- **Funds with a restricted group of investors and a long-term investment horizon:** In these funds, gating cannot regularly bring any practical added value for the fund, since in addition to the restricted group of investors, there is in particular a long-term investment horizon, in which an early exit has an economically disadvantageous effect on the investor and thus a sudden increased return demand, which the KVG is confronted with, is not to be expected.
- **ETFs:** In the case of ETFs, there is the special feature in Germany that investors can return their units directly to the KVG, but the rule is the acquisition of the units by so-called Authorised Participants (AP) in the market from the investor. A direct return of the investor to the KVG becomes relevant if the secondary market gets into such turbulence that, for example, a price can no longer be determined. Then, however, even a redemption restriction is no longer a suitable means, but only a redemption suspension. This means that there is no practical added value to include terms for gating in the case of ETFs either.

These exceptions do not apply per se. Rather, the KVG has to examine whether there are special circumstances in the individual case that could make the possibility of gating nevertheless useful in exceptional cases.

If the KVG decides in favour of the redemption restriction as LMT, it must be clear from the investment fund rules and the prospectus that if the redemption restriction is activated and the order will only be accepted on a pro rata basis and that the unexecuted residual order will lapse.

Practical advice: The BVI has agreed with BaFin on corresponding sample investment fund rules and clauses for the contents of the prospectuses.

Amendment of the key investor information (KIID): In principle, there is no regulatory requirement in the KAGB to adapt the KIID. In particular, when introducing the LMT, the KAGB only provided for specifications in the investment fund rules and in the prospectus that are intended to enable investors to be informed about these tools and their procedures. The requirements in the KIID Regulation (Regulation (EU) No. 583/2010) are conclusive and authoritative in this respect. Neither information on the liquidity management tools nor on the possibility of suspending redemptions is required. At most, Article 7 (1)(b) of the KIID Regulation ('the possibility that the investor may redeem units of UCITS on demand, qualifying that statement with an indication as to the frequency of dealing in units') could serve as the basis for a statement in the KIID, whereby this regulation is basically aimed at providing information on the regular possibility to redeem the fund units (e.g. on each trading day or at least twice a month). Article 7(4) of the KIID Regulation leaves scope for interpretation, according to which the section 'objectives and investment policy' may also contain other elements than the prescribed contents, provided that these are necessary for an adequate description of the fund's objectives and investment policy. If, in practice, information is provided at this point about the redemption suspension, consideration should be given in these cases to also providing information about the possibility of a redemption restriction. The KIID is the essential client information document in the distribution process. Distributors are required by civil law to inform clients about the product and its characteristics. In this respect, there is also a need in practice for distributors to already include the possibility of a redemption restriction in the KIID. It is therefore up to the KVG to decide, in consideration of the overall circumstances, to adapt the KIID accordingly. In any case, a 'warning notice' for the investors is not to be assumed in this context, because the redemption restriction as an investor-protecting regulation is aimed at preventing a suspension of the redemption.

b) The decision to activate the gate when the threshold is exceeded: If the KVG has agreed with the investors on the possibility of a redemption restriction, it can only make the decision to activate the gate when the investors' redemption requests exceed a previously defined threshold on a particular settlement date. The KVG is free to determine the threshold value itself in the investment fund rules based on the liquidity profile of the fund. If the threshold value is reached or exceeded, the KVG shall decide at its own discretion whether to restrict redemption on this settlement date. If it decides to restrict redemption, it may continue to do so for up to 14 consecutive business days based on a daily discretionary decision. This decision may be taken if, when the threshold value is exceeded, the redemption requests should not be executed in the interest of the investors due to the liquidity situation of the investment fund. As a rule, this will only happen in exceptional cases, e.g. if the liquidity of the fund's assets has deteriorated due to political, economic or other events on the markets and is therefore no longer sufficient to fully service the (increased) redemption requests on the settlement date.

2. Determination of the total order volume based on gross not netted orders: In order to be able to decide whether the gating should be activated, the KVG must assess the available liquidity in the investment fund after the order acceptance deadline. For this purpose, the KVG must on the one hand assess the liquidity of the assets in the investment fund and on the other hand have knowledge of the total order volume to be able to determine a quota for the pro rata approach. To be able to calculate the quota exactly, the KVG therefore needs the information on gross orders of the inflows and outflows of investment funds that have not been netted on a regular and permanent basis to determine the available liquidity. A conversion of the systems to an information flow that reflects the gross orders is therefore imperative if netting is used in the custody chain. Netting is understood as the netting of the issue and redemption requests by a platform or custodian and the forwarding of the balance to the custodian or depository. In the case of disclosure to the KVG, only orders that have not been netted are relevant, whereby the orders may well be aggregated in the information flow to the KVG (here: offsetting of the issue requests of various investors accruing at a platform or custodian on the one hand and redemption

requests of various investors on the other hand as well as forwarding of the respective balances via the sum of the issue requests and the sum of the redemption requests to the next custodian in the custody chain or the custodian).

Approaches in practice: In practice, there is currently still a heterogeneous picture in netting practice. Insofar as netting is used, the following approaches can be considered:

- a) Maintaining of the netting practice and creation of an additional reporting channel for the disclosure of gross orders to the KVG or
- b) Abolition of netting and conversion to the gross approach.

With these solutions, it remains open how to deal with other platforms and foreign matters in custody chains. The majority of the experts in the association group assume that the forwarding of gross information is possible in principle and is not a 'show stopper' for the implementation of gating.

3. Time of activation: The time at which a KVG activates the redemption restriction cannot be specified by default. Rather, it depends to a large extent on the respective order acceptance deadline for the individual investment fund and the internal information processes of a KVG, because the KVG can only make its liquidity assessment after the order acceptance deadline. The KVG should make its decision to activate the redemption restriction early enough so that this information can reach the custodians before the order is settled/booked to avoid cancellations. The time of the order acceptance deadline therefore influences the question of when the KVG can activate the gate and inform the other agents for further processing. In any case, the KVG must define an internal process for this (e.g. responsibilities, timing, information chains) and document this. The initial activation of the redemption restriction requires a resolution by the management board of the KVG, which does not have to be obtained again in the event of renewed activation on subsequent days.

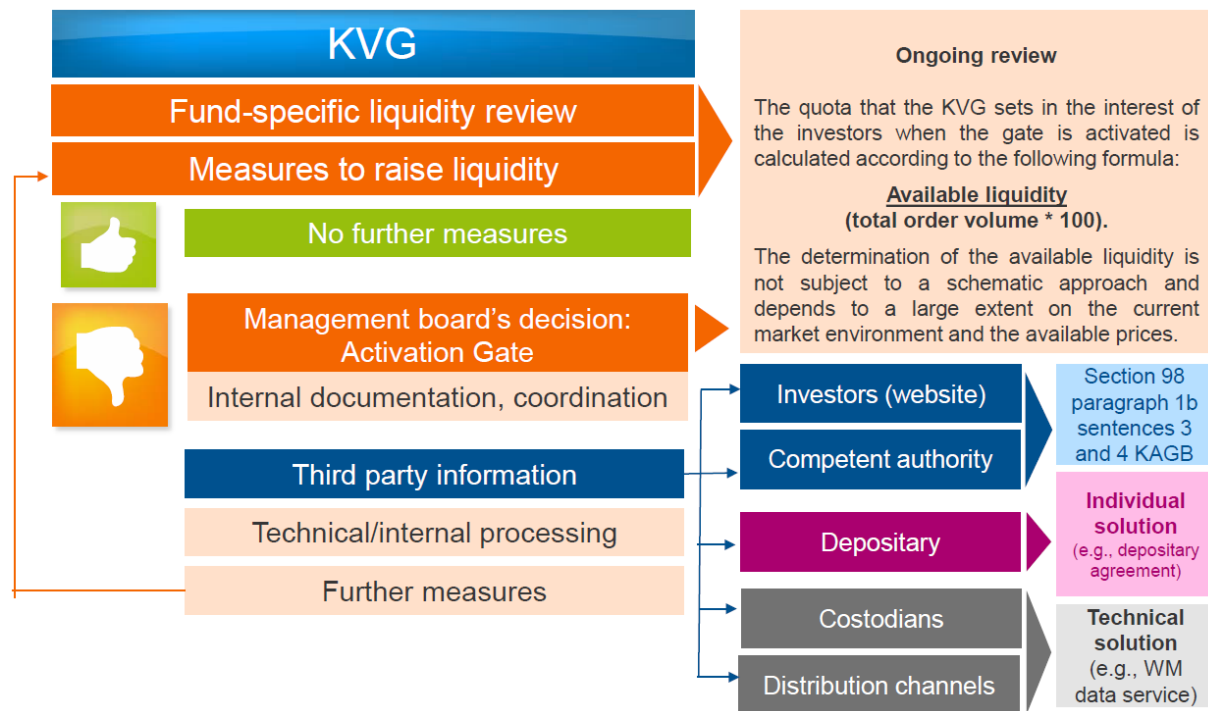
4. Determination of the pay-out ratio by the KVG: If gating is activated, each redemption order can only be executed proportionately based on a quota to be determined by the KVG. The company determines the quota in the interest of the investors based on the available liquidity and the total order volume for the respective settlement date. The determination of the available liquidity depends to a large extent on the current market environment and the prices of the fund assets that can be evaluated. The quota determines the amount of the redemption requests that will be paid out on the settlement date. The unexecuted part of the order (residual order) is not executed by the company at a later date, but expires.

How long does the redemption quota apply? The redemption quota (in the case of daily unit price calculation) is recalculated daily on the basis of the available liquidity, i.e. it is only valid for the respective settlement day. The KVG makes its decision on the activation of the gate and the calculation of the quota every day on the basis of the available liquidity. This can only be done consecutively for a maximum period of 15 working days.

Is it a percentage rate? The quota is expressed as a percentage. The quota determines the percentage share at which the redemption requests are paid out on the settlement date.

Does the quota affect the unit price? No. The activation of the redemption restriction together with the quota has no effect on the calculation of the NAV, its publication, and the unit prices.

5. Information obligations of the KVG on the activation of the gate: With regard to the information obligations, a distinction must be made between the legal obligations and the information required in practice in the technical settlement chain:



- a) **Legal information obligations:** If the KVG makes use of a redemption restriction, it must by law inform BaFin immediately about its activation and cancellation and, in the case of retail funds, additionally publish this on its website, i.e., it must set up an internal process for this and define responsibilities so that the information can be provided immediately.

Practice notes: It is at the KVG's discretion how long it publishes the information about the redemption restriction on its website after it has been lifted. Here, the KVG could be guided by how long it publishes information about a suspension of redemption on its website. In any case, there is no legal obligation to keep a history of past redemption restrictions of funds on the website.

- b) **Information in the settlement chain: information of the depository by the KVG:** The KVG informs the depository about the activation of the gating after the resolution has been passed. At the present time, there is no need for standards on the way in which information is exchanged between the KVG and the depository. This depends on the individual case and the contractual agreements (e.g., supplementary agreements to the depository agreement). Should it become apparent that further discussions are necessary, this point will be discussed in more detail between BVI and DK in due course. BVI and DK will examine standardisation for the future.

Content of the information to be provided by the KVG to the depository. The KVG informs the depository about the following contents:

- Investment fund XY has activated a gate.
- Date of application of the redemption restriction (the gate applies to redemption orders placed on day XY up to the order acceptance deadline).
- Pay-out ratio in per cent without decimal places

- c) **Information in the settlement chain: information of the custodians by the KVG:** Operationally, the KVG must inform the order settlement systems that it has activated the gating and that the order can only be served on a pro rata basis. The KVG reports back via the order acceptance

channel. In practice, the order acceptance channel can be designed with varying degrees of complexity, for example by involving third parties in the order acceptance and order routing process. These order acceptance agents must transmit this information to the custodians in the technical settlement at an early stage, i.e., it should take place within the time for which the price delivery is expected by the KVG to ensure the technical settlement. This must therefore be done at such an early stage that this information is received by the custodians before the settlement/booking of the order in order to avoid cancellations. The terms ‚deletion‘ or ‚cancellation‘ should not be used here because they are already used in other contexts.

Example: Prompt feedback from the KVG to the custodian regarding the activation of the redemption restriction via the order acceptance channel based on an individual solution (e.g., individually agreed between the KVG and the custodian) or via a standardised solution. The standardised solution provides for an extension of the execution information on the level of the specific sell orders (e.g., via the Swift message formats: execution message MT513; order confirmation, contract note MT512) as well as via a basic provision of the following information (e.g., via WM data service):

- a) Investment fund XY has activated a gate.
- b) Date of application of the redemption restriction (the gate applies to redemption orders placed on day XY up to the order acceptance deadline).
- c) Pay-out ratio in per cent without decimal places.

In the settlement process, the KVG uses the concrete execution unit numbers.

At the time of execution, a contract note is generated and sent to the custodians via the settlement chain. The contract note should contain a signal or pulse informing the custodian whether gating has been activated. The file format of this signal depends on the data format of the settlement (e.g., if the settlement is sent via SWIFT, the standard DESSUG developed for the SWIFT medium must also be used for the signal).

- d) **Information in the settlement chain: Should the KVG provide information about the total duration of the restriction?** Information on the expected total duration of the restriction is not required by law. This would also not be appropriate because the KVG must re-evaluate the duration of a possible restriction based on the available liquidity at each new redemption opportunity (every trading day) and has an interest in keeping this period as short as possible in practice. This will be measured by the liquidity situation of the investment fund and the current market environment, which may vary in each case. Likewise, a prior determination of a specific restriction period that cannot be shortened is disadvantageous from a risk management perspective. This is because the KVG could/should then not react during a possibly agreed restriction period (if this period is chosen generously, for example) and not execute orders, even if the portfolio has regained liquidity in the meantime.

Solution based approach in practice: From the point of view of the distribution channel, information by the KVG on the maximum duration of the redemption restriction is desirable. In principle, the distribution channels also need a technical representation of this information if a uniform national industry standard on the maximum duration (e.g., statutory maximum duration) is used as a basis in the sales documents. For this reason, a uniform international industry standard would be desirable in the future. A national industry standard at least simplifies the information to the client. The BVI sample prospectuses are therefore based on the statutory maximum duration of the restriction period (maximum 15 working days).

6. **Internal procedure at the KVG level:** The following examples show two internal processes at the KVG level for an investment fund that is not settled on the same day with a price fixing only on the next day of order placement (forward pricing with T+1) and an investment fund that is settled on the



same day (pricing with T). The examples are listed as process loops, which is why step 1 would have to be started again at the end of the last step 'continuous review of the liquidity situation'.

- a) Example of a process at the level of the KVG for an investment fund not settled on the same day with price fixing only on the next day of order placement (forward pricing with T+1)

Event / task	Responsible	Time
Trigger: Returns > Threshold & Liquidity (ongoing check in liquidity risk management)	Risk management	T, afternoon after order acceptance deadline
Consultation with portfolio management as to whether other measures are available to raise liquidity in the short term	Risk management, Portfolio management	T, afternoon / evening
Internal coordination	Management board, Risk management	T+1 morning
Obtain resolution on activation of gate from management board (without supervisory board)	Management board Legal	T+1 morning
Provision of required documents	Legal	T+1, morning
Release for subsequent activities	Legal, Risk management	T+1, morning
Third party information about gate activation: - investors (websites of the KVG) - BaFin - others (e.g., interfaces, custodian, distributor, depositary)	Competent departments	T+1, midday
Technical, internal processing of the gating-relevant tasks (cf. e.g., information section V. 5 c)	Competent departments	T+1, afternoon
Coordination of portfolio management / risk management for the further procedure of liquidity management	Risk management, Portfolio management	T+1, afternoon
Ongoing review of the liquidity situation	Risk management, Portfolio management	T+ 1 and T+2

b) Example of a process at KVG level for a same-day settled investment fund (pricing with T)

Event / Task	Responsible	Tim
Trigger: Returns > Threshold & Liquidity (ongoing check in liquidity risk management)	Risk management	T, afternoon after order acceptance deadline
Consultation with portfolio management as to whether other measures are available to raise liquidity in the short term	Risk management, Portfolio management	T, afternoon
Internal coordination	Management board Risk management	T, afternoon
Obtain resolution on activation of gate from management board (without supervisory board)	Management board Legal	T, late afternoon
Provision of required documents	Legal	T, late afternoon
Release for subsequent activities	Legal, Risk management	T, late afternoon
Third party information about gate activation: - investors (websites of the KVG) - BaFin - others (e.g., interfaces, custodian, distributor, depository)	Competent departments	T, late afternoon
Technical, internal processing of the gating-relevant tasks (*)	Competent departments	From T, late afternoon up to and including night processing from T to T+1
Accounting of redemptions with fund price of T	Fund accounting	T+1
Ongoing review of the liquidity situation	Risk management, Portfolio management	T+ 1 and T+2

(*) incl. fund unit processing in the custody account with fund price of T.

VI. Measures at the level of the depository institution

The activation of the gating has no effect on the calculation of the net asset value (NAV) and the amount of the unit price. The custodian must process the information provided by the KVG on the activation of the gating and the quota in its systems and apply it to the orders placed (here: redemption requests). In other words, it must set up processes to be able to service these redemption requests on a pro-rata basis. To do this, it must convert the notified partial execution into an allocation of the individual client orders so that it can be determined for each client how many of the tendered fund units will actually be redeemed and thus booked out of the client's custody account. The remaining order per client expires according to the investment conditions of the respective investment fund. The systems of the custodian must therefore ensure that no residual orders per client remain logged as open either.

Example scenario from the point of view of the custodian (this scenario assumes, as an example, that issue and redemption orders are placed separately and that no netting takes place at the level of the custodian):

- 1) All client orders are placed on the custody account side (e.g., day 0, aggregated according to issue and redemption requests).
- 2) Prompt feedback from the KVG to the custodian regarding the activation of the redemption restriction (the information must be provided before the booking processes start).
- 3) Identify and allocate the respective orders that will only be executed on a pro-rata basis.
- 4) Price day execution: pro rata order execution according to the quota set by the KVG

Technical solutions: For the custodian to be able to identify and allocate the orders to be executed on a pro-rata basis only, it requires the information on the activation of the gate reported back by the KVG via the order acceptance channel in a standardised form from the order acceptance agent (cf. section V. 5. c of this guidance).

Practical tip: Custodians should check how they map the requirements technically in their settlement systems (e.g., definition of processes, identification of individual investment funds, programming effort).

The current interim status with WM data service regarding a technical solution can be found in **Annex 1**.

VII. Depositary

1. Information of the KVG by the depositary on movements of units of the investment fund

The exchange of information between the depositary and the KVG depends on the individual case and the contractual agreements (e.g., provision in the depositary agreement). In principle, the information to be exchanged between the KVG and the depositary is determined individually in a supplementary agreement to the depositary agreement.

The following must be taken into account when the KVG is informed by the depositary about movements of funds:

a) Reporting formats: In the settlement process, the KVG receives a turnover report from the depositary of its fund units (usually with all issues and redemptions). Currently, there are no uniform processes on how the depositary informs the KVG about the individual fund transactions (e.g., uniform reports, formats).

Solution based approach in practice: Lack of standards is not an obstacle to the technical implementation of the redemption restriction, because individual processes have already been established for the exchange of information, which work well in practice. BVI and DK will examine standardisation for the future.

b) Information on issues and redemptions: The previous practices in informing the KVG by the depositaries are based on a commercial rounding approach. There is no need for further action here.

2. Information of the custodians by the depositary

Operationally, the depositary must also inform the custodians that the order can only be executed on a pro-rata basis.

Practical tip: In practice, this information can be provided through the execution confirmation. Custodians should therefore check how they map the requirements (e.g., definition of processes, identification of individual funds, programming effort). If SWIFT is an established channel between the depositary and the custodian, it should be used. Otherwise, the information can be provided by the depositary to the custodian on the basis of an individual solution or via a technical solution (e.g., DESSUG).

The current interim status of the technical mapping in the SWIFT messages can be found in **Annex 2**.

VIII. Distribution

1. **Legal basis:** In addition to the investment fund's sales documents (investment terms and conditions, prospectus and key investor information), the advisory agreement, custody agreement, Sections 6, 8 and 16 of the Special Terms and Conditions for Securities Transactions as well as the requirements of MiFID and the WpHG and Article 59 of the Delegated Regulation (EU) 2017/565 (Del. VO MiFID II) must also be observed in distribution, depending on the case.

2. Client information

	Information about the introduction of the Gating in the KAGB (not fund-related)	Information about the activation of the gating (specifically fund-related)
Existing clients	Examples: <ul style="list-style-type: none"> ▪ Quarterly report (Art. 63 DVO MiFID II) ▪ Annual custody account statement 	Website of the KVG
New clients	Example: <ul style="list-style-type: none"> ▪ Basic information on securities and other investments 	Website of the KVG

- Existing clients must be informed about the introduction of redemption restrictions in the KAGB. A generic information should be sufficient. Since the KVG does not have to use a durable medium for an amendment of the investment conditions for the introduction of the redemption restriction for an investment fund, no more detailed information or information specifically related to a certain investment fund can be expected from the custodians.
- New clients are informed about the basic information on securities and other investments about the changes in the KAGB, provisionally by means of the insert 'Options for managing inflows and outflows by issuing and redeeming units in investment funds (liquidity management tools)'.

It is not legally necessary for the custodian to inform the client about the fund-specific inclusion of liquidity management tools in the investment conditions.

a) Execution-only business

- *Information when acquiring units of the investment fund:* If a client intends to acquire units of an investment fund that provides for a redemption restriction, the information provided to the client in general form (sales documents) is sufficient to inform the client appropriately. Details can be found in the investment terms and conditions and the prospectus. These must be offered to the client. A separate notice that the investment fund provides for a redemption restriction in its investment conditions is not required.

Practice notes: It is not necessary to inform the client separately in the execution-only business that the investment fund had last/shortly activated a gate. Information on the activation of a redemption restriction can be obtained from the websites of the respective KVG to a reasonable extent and is thus publicly accessible for every client.

- *Information when placing orders for the redemption of fund units for which gating is not activated:* At the time the order is accepted, the custodian has no information as to whether a redemption restriction is activated. The fact that an investment fund can make use of this possibility is already apparent to the investor from the investment terms and conditions or the prospectus. Investors can find out whether an investment fund has used a redemption restriction on the previous valuation day on the KVG's website. Separate information of the client is therefore not required.
- *Information in case of redemption of fund units for which gating is activated:* If a client has placed an order for the redemption of fund units and the KVG activates the gate after the order acceptance deadline, the KVG is obliged to publish this on its website. An additional information pursuant to section 298 KAGB (durable medium, mandatory information under the UCITS Directive) is not provided for in the event of a redemption restriction, unlike in the case of the suspension of redemption. The client is informed in the sales documents of the investment fund that the activation of the gate will be published on the KVG's website. This publication thus provides an appropriate degree of public information.

After partial execution has taken place and the residual order has expired, the client must be informed appropriately and promptly about the partial execution (Art. 67 para. 1 lit. c) Del. Regulation MiFID II).

b) Investment advice

- *Recommendation to buy a unit of an investment fund with the possibility of a redemption restriction:* If, as part of the investment advice, a recommendation is given to buy units of an investment fund that provides for the possibility of a redemption restriction, it could be advisable in individual cases to inform the client appropriately about this. If the KVG has supplemented the KID with the possibility of a redemption restriction, appropriate information could also be considered with the help of the KID, as so modified.
- *Recommendation to sell a unit of an investment fund with the possibility of redemption restriction:* If, part of the investment advice, a recommendation is given to sell units of an investment fund that provides for the possibility of redemption restriction, it might be advisable to take this into account appropriately.

Liquidity management tools (LMT) Information for the liquidity risk management of investment funds - product expansions (Replaces Special information issue F11 of 08.04.2021)

Please note the updated information under item 3 on data deliveries.

1. Background

With effect from March 28, 2020, new liquidity management instruments have come into force in the German Investment Code (Kapitalanlagegesetzbuch, KAGB), enabling capital management companies to better manage the liquidity of the open-ended investment funds they oversee.

The aim of the new instruments is to ensure a targeted liquidity risk management of the investment funds by the capital management companies. Especially in volatile stock market phases, these instruments shall ensure that investors are better protected thereby creating a more fair and efficient financial market and reducing systemic risks.

If the capital management companies decide to utilize the new options and, in particular, activate the redemption restriction instrument, the distributors must inform the affected investors without delay.

2. Implementation

To support the exchange of information between the capital management companies, distributors, and investors regarding the LMT, WM Datenservice will provide the following three additional fields:

- **LIQUIDITY TOOL - REDEMPTION RESTRICTIONS IDENTIFIER (GD279C)**

The identifier indicates whether the fund can principally use the redemption restrictions instrument stipulated in the prospectus.

- **LIQUIDITY TOOL - QUOTA REDEMPTION RESTRICTIONS (ID110)**

If redemption restrictions have been activated for a fund by a capital management company, this link field shows the percentage rate at which the order will be executed and the date for which the redemption restriction rate applies.

- **LIQUIDITY TOOL - REDEMPTION PERIOD (GD279D)**

This field contains the number of days if the fund uses redemption deadlines to manage liquidity.

The existing field (GD496W) provides information on the use of the Swing Pricing instrument.

The data requirements were developed within the framework of a WM expert group and the results were presented to the inter-association working group of the German banking industry with the BVI and BaFin.

3. WM data and information provision

The new fields GD279C/GD279D as well as ID110 were provided to you within the scope of the 95th Release on 28 June 2021.

Within the scope of current developments in the course of our IT infrastructure project EDDy_neu, the timeline and go live date were updated and communicated accordingly in the EDDy_neu Information issue 1022 of 12 August 2021.

We will therefore provide you the data for the new fields as of 1 January 2022 in the currently valid formats VF1/EDDy_XML.

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Liquidity management tools – Description of delivery formats

ISSUER INFORMATION
E05 – 01.12.2021

This translation is provided for convenience only;
the German version is authoritative.

1. General

With this Issuer Information we would like to inform you about the details of the data delivery for the new data fields of the liquidity management tool (LMT). As described in our Special Information F11a of 17 September 2021, the delivery to WM is possible from 1 January 2022 for the following fields:

- **ID110 – LIQUIDITY TOOL - QUOTA REDEMPTION RESTRICTIONS**
If the redemption restrictions for a fund have been activated by an asset management company, this linkage field depicts the percentage rate at which the order will be processed and the date for which the redemption restriction rate applies.
- **GD279C – LIQUIDITY TOOL - REDEMPTION RESTRICTIONS IDENTIFIER**
The feature indicates if the fund can generally use the instrument of redemption restrictions in accordance with the prospectus.
- **GD279D - LIQUIDITY TOOL - REDEMPTION PERIOD**
If the fund uses redemption periods to manage liquidity, this field depicts the number of days.

2. Delivery for ID110

Standard process for delivery

For the correct processing of the data, WM Datenservice requires the following information for each (sub-) fund for which the redemption restrictions are to be activated:

- ISIN
- WKN
- Quota
- Date
- Currency

This information must be reported to WM Datenservice on a daily basis for as long as the withdrawal restriction is to remain valid. For this purpose, please use the Excel template attached and send us with this template exclusively via email to liquiditytool@wmDaten.com. Information on the data delivery as well as correction and cancellation is provided on the second worksheet of the WM reporting form.

If you should require the reporting form again as a template at a later date, we will be happy to provide it to you by email. In this case, please contact the persons mentioned in this Issuer Information or send us an email to helpdesk@wmdaten.com.

However, the delivery of data by email and Excel file will only be possible until April 2023. After this date, the delivery method (SFTP) and the delivery structure (XML file) will change after the changeover to EDDy_neu. All further information on the changeover is available at <https://eic.wmdaten.com/index.php/home>.

IFP delivery times

The information is provided via the product Investment Fund Prices (IFP). Especially in situations where redemption restrictions are activated, time can become the limiting factor. This applies in particular to funds without forward pricing, for which a decision on the activation of redemption restrictions must be made within a very short period of time. As these ad hoc activated restrictions have to be communicated as soon as possible to the relevant stakeholders, we would like to point out the delivery times for IFP:

Delivery times in the morning	Delivery times in the afternoon
7am	4pm
10am	5:30pm
2pm	6:30pm
	8:30pm

In order to ensure delivery at your preferred time, please take into account at least one hour for processing at WM Datenservice and provide us with the information in a good time.

3. Delivery for field GD279C / GD279D

For field GD279C, the following information must be provided to WM Datenservice:

- ISIN
- WKN and
- The respective field value (1 = "Yes" or 2 = "no").

Should a delivery also be required for data field GD279D, please also transit the following information according to the explanations for field GD279C:

- ISIN
- WKN and
- number of days

For data delivery, you can use the known delivery channels and formats via Excel list and/or csv file. Please send this information exclusively to the following email address WKN-Funds@wmdaten.com.

4. Start of delivery and availability of documents

You can provide us the relevant information from 1 January 2022. The processing of the new keys will only be possible from this date.

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Redemption Gating

Proposal for message specification for gated redemption

Work-in-progress For DESSUG (German funds market practice group)

Contains ISO 15022 and ISO 20022 specification.

This document incorporates the results of

- Review meetings on 20 & 27 August 2020
- SMPG IF finalisation of scenario '**non-automated**' from SMPG IF specification (unit-led scenario) has replaced the Redemption Order Confirmation setr.006 example previously in this document

Gating

The practice of temporarily stopping redemptions from a fund. A fund will have a Gate Provision clause in the fund's offering documents/prospectus, for example:

“The Board of Directors of the fund's right to limit redemptions on a given dealing day based on prospectus prescribed threshold. In these circumstances the sale of the shares requested on that dealing day may be split for several valuation days and processed in priority to other sell orders received on subsequent valuation days.”

Gate provisions restrict redemptions and are intended to stop a run on a fund.

In other words, **the amount or units specified in the order are not all redeemed from the fund at the same time**. And if, and when, further redemptions from the fund are subsequently done, the trade date is different and the price may be different.

This is differentiated from a **‘hold back’**, which is not covered in this document.

Hold Back

The amount/units ordered is redeemed from the fund at the same time, but some cash is held back, the cash is settled in ‘tranches’. This is known as a **‘hold back’**.



In the redemption confirmation it must be possible to indicate that

- 1. the redemption has been gated**
- 2. the percentage that was redeemed**
- 3. Even though the redemption order is not ‘fully executed’, the ‘process is complete’.**
- 4. It should be possible to use the MT 515**

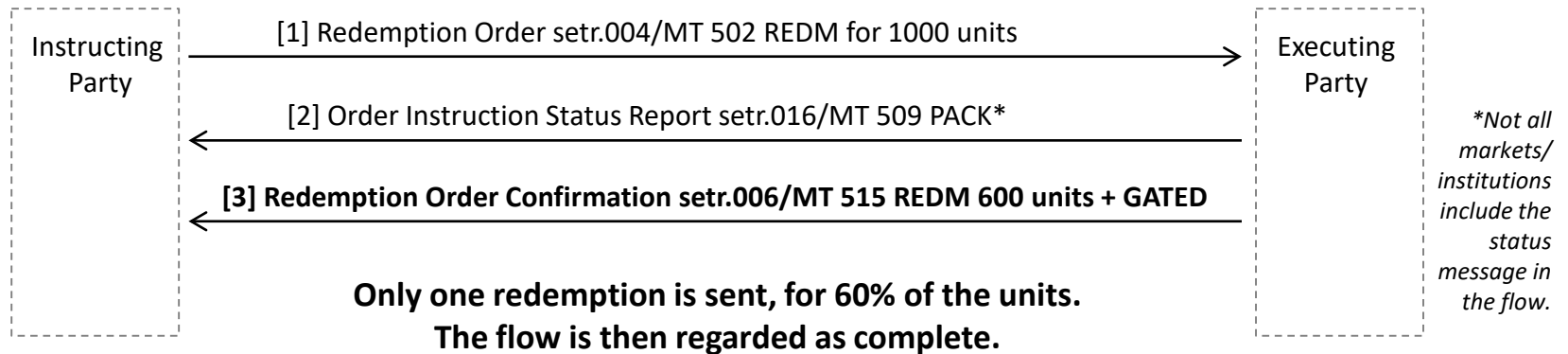
NOTES

- In other markets, it could be that 2nd and 3rd redemption confirmation messages (and so on) are sent, in order to complete the redemption.)**
- In the DE market, typically a redemption order is placed as the number of units.)**



Scenario and Flow

DESSUG Flow



- [1] The instructing party sends a Redemption Order setr.004/MT 502 message for the redemption of 1000 units (this is a units-led redemption order).
- [2] The executing party may send an Order Instruction Status Report setr.016/MT 509 message to state the order has been received and will be processed further.
- [3] The executing party sends a Redemption Order Confirmation setr.006/MT 515 message for **600** units (60%). The price is €10, the settlement amount is €6,000. The confirmation specifies that gating has been applied.



DESSUG Flow – there is only one redemption

Using the MT 515 Client Confirmation of Purchase or Sale to confirm a gated redemption

```

MT 515 REDM
:16R:GENL
:20C::SEME//Deal 1
:23G:NEWM
:22F::TRTR//TRAD
:16R:LINK
:20C::RELA//Order 1
:16S:LINK
:16S:GENL
:16R:CONFDET
:98A::TRAD//20200907
:98A::SETT//20200910
:90B::DEAL//ACTU/EUR10,
:22H::BUSE//REDM
:22H::PAYM//APMT
:16R:CONFPRTY
:95Q::SELL//111111
:97A::SAFE//111111
:16S:CONFPRTY
:36B::CONF//UNIT/600,
:35B:ISIN DE1234567890
:16S:CONFDET
:16R:SETDET
:22F::SETR//TRAD
:22F::STCO/SMPG/GATE
:22F::STCO/SMPG/PC60
:22F::STCO/SMPG/FINL
:16R:AMT
:19A::SETT//EUR6000,
:16S:AMT
:16R:AMT
:19A::DEAL//EUR6000,
:16S:AMT
:16S:SETDET
    
```

Settlement Details 16R SETDET: Field 22F Indicator

22F 4!c Indicator :4!c/[8c]/4!c

(Qualifier)(Data Source Scheme)(Indicator)

4!c = must be exactly 4 alpha-numeric letters (upper case), and/or digits and digits only

	M/O	Qualifier	R/N	Description
1	M	SETR	N	Type of Settlement Transaction Indicator
2	O	STCO	R	Settlement Transaction Condition Indicator

The optional and repetitive STCO field is used, with the data source scheme, three times to carry the gating information:

→ There is gating.
 → Execution is 60% of the units.
 → This is the final confirmation, no further executions will be done.

If the SLA between the two counterparties states there is 'only one confirmation in the gated flow', then 22F STCO/SMPG/FINL is probably superfluous, although might it be a 'nice to have'.

Gating functionality does not exist in the MT 515.
 This is a work-around which should only be used as an interim solution until the funds ISO 20022 messages (which have gating functionality) are adopted. There would need to be bilateral agreements (SLA) that an MT 515 could be used in this way.

The syntax in this MT 515 has been validated for syntax correctness in the MyStandards test portal

MT 515 REDM No charges are shown

:16R:GENL

:20C::SEME//Deal 1

:23G:NEWM

:22F::TRTR//TRAD

:16R:LINK

:20C::RELA//Order 1

:16S:LINK

:16S:GENL

:16R:CONFDET

:98A::TRAD//20200907

:98A::SETT//20200910

:90B::DEAL//ACTU/EUR10,

:22H::BUSE//REDM

:22H::PAYM//APMT

:16R:CONFPRTY

:95Q::SELL//111111

:97A::SAFE//111111

:16S:CONFPRTY

:36B::CONF//UNIT/600,

:35B:ISIN DE1234567890

:16S:CONFDET

:16R:SETDET

:22F::SETR//TRAD

:22F::STCO/SMPG/GATE → There is gating.

:22F::STCO/SMPG/PC60 → Execution is 60% of the units.

:22F::STCO/SMPG/FINL → This is the final confirmation, no further executions will be done.

:16R:AMT

:19A::SETT//EUR6000,

:16S:AMT

:16R:AMT

:19A::DEAL//EUR6000,

:16S:

:16S:

Not an entirely complete setr.006

```

<RedOrdrConf>
  <MltplExctnDtls>
    <InvstmtAcctDtls>
      ><AcctId>111111</AcctId>
    </InvstmtAcctDtls>
    <IndvExctnDtls>
      <OrdrRef>Order 1</OrdrRef>
      ><DealRef>Deal 1</DealRef>
      <FinInstrmDtls>
        <Id>
          ><ISIN>DE1234567890</ISIN>
        </Id>
      </FinInstrmDtls>
      ><UnitsNb>600</UnitsNb>
      ><GrssAmt Ccy="EUR">6000</GrssAmt> ← Quantity x Price
      ><TradDtTm><Dt>2020-09-07</Dt>
      </TradDtTm>
      <DealgPricDtls>
        <Tp><Cd>NAVL</Cd></Tp>
        ><Val><Amt Ccy="EUR">10</Amt></Val>
      </DealgPricDtls>
      ><SttlmAmt Ccy="EUR">6000</SttlmAmt>
      ><CshSttlmDt>2020-09-10</CshSttlmDt>
      <PrtlyExctdInd>true</PrtlyExctdInd> ← Not fully executed, even if this is regarded as the final confirmation.
      <CumDvddInd>true</CumDvddInd>
      <PhysDlvryInd>>false</PhysDlvryInd>
      <PrtlSttlmOfUnits>60</PrtlSttlmOfUnits> ← This setr.006 confirms 60% of units of the original order are redeemed.
      <GtgOrHldBckDtls>
        <Tp>GATE</Tp> ← There is gating
        <RedCmpltn>RED1</RedCmpltn> ← RED1 = executing party regards this as the last confirmation and if the instructing party wants to redeem more, must send a new order.
        <FnlConf>true</FnlConf> ← True= this is the last confirmation in the flow
      </GtgOrHldBckDtls>
    </IndvExctnDtls>
  </MltplExctnDtls>
</RedOrdrConf>

```




– End –

