

FREQUENTLY ASKED QUESTIONS ABOUT REDEMPTION GATES (GATING) FOR INVESTMENT FUNDS

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1 WHAT IS A REDEMPTION GATE?

A redemption gate (also known as and hereafter referred to as “gating”) is a temporary and partial restriction of the right of a unit-holder or shareholder to redeem their units or shares, so that investors are only allowed to redeem a certain part of their units.

Gating is a liquidity management tool (LMT), which allows the temporary restriction of the maximum amount of fund units that are allowed to be redeemed. Where gating is in place, redemption orders will only be executed up to a defined amount. The portion of the sell order that exceeds that amount will either not be settled, or will only be settled at a later date, depending on the respective fund regulations.

2 WHY IS GATING USED?

Gating is intended to prevent a fund from having to sell assets under time pressure below their real value due to there being an exceptionally high level of redemptions. By doing so, investors are protected, and fund stability maintained. The FMA considers gating as an important liquidity management tool.

3 WHEN CAN GATING BE ACTIVATED?

Typical triggers are:

- exceptionally high redemption levels of units
- market liquidity stress
- difficulties in selling assets
- protection of equal treatment of all investors

The specific conditions depend on the fund regulations and the applicable regulatory requirements.

4 HOW DOES GATING AFFECT INVESTORS?

Investors may continue to redeem units in funds. However, execution may potentially only be possible in part up to a determined maximum amount. Up to which amount sell orders are executed depends on the fund’s respective gating rule. Investors are required to be informed about the exact gating rules that apply.

For example: An investor issues an order for redeeming fund units with a value of EUR 10,000. If the fund has activated a EUR 5,000 gating, then the order will initially only be conducted for a value of EUR 5,000. This will be paid out to the investor. The rules for the respective fund will apply to the EUR 5,000 portion of the order that is not executed. Depending on the fund, this part of the order may be executed at a later date, or is cancelled, in which case, a new redemption order must be issued. Investors must be informed by the management company about the specific procedure. This information is usually found in the documentation of the respective fund, especially in the fund regulations.

5 DOES GATING CAUSE INVESTORS TO LOSE THEIR MONEY?

No. Gating does not mean that investors lose the money they invested. It is a purely temporary restriction or throttling of the redemptions of unit certificates. In particular, gating is applied for protecting the stability of the investment. The value of the fund units remains dependent on the performance of the underlying assets of the fund.

6 WHAT IS THE DIFFERENCE BETWEEN GATING AND SUSPENSION OF REDEMPTION?

- In the case of gating, redemptions are only executed up to a maximum value.
- In the case of suspension redemptions are temporarily not executed at all.

Gating is therefore generally a less severe action and serves the purpose of reducing the risk of suspension.

7 WHAT ARE THE ADVANTAGES OF GATING?

- Remaining investors are protected
- Avoidance of fire sales
- Stabilisation of the liquidity of the fund
- More equal treatment of investors

8 WHAT ARE THE DISADVANTAGES OF GATING?

- Investors may not receive their money immediately.
- It is not possible to predict the timing of the pay-out being made in full.

9 DOES GATING AFFECT ALL INVESTORS IN THE SAME WAY?

Yes. Gating is generally applied to all redemption orders that have not yet been executed at the time of gating being activated or received thereafter. Such orders are treated using the same rules. This guarantees the equal treatment of investors.

10 IS GATING POSSIBLE FOR AUSTRIAN FUNDS?

Yes. Gating is among the liquidity management tools that may be used for open-ended funds.

11 CAN GATING BE CONSIDERED AS A SIGN THAT A FUND IS IN DIFFICULTIES?

Not necessarily. Gating may be used in a preventive manner to overcome extraordinary liquidity burdens. Its use however demonstrates that the fund is taking measures for managing liquidity in the interest of all investors. The significant aspect for investors is that gating does not mean that the value of the fund in question is falling. Activating a gating may be necessary, for example due to an exceptionally high number of applications for redemption, while the assets held by the fund (and therefore the value of the fund) may be stable.

12 WHAT ROLE DOES THE FMA PLAY?

The FMA monitors whether (real estate) investment fund management companies and alternative investment fund managers comply with statutory rules and fund regulations, especially those in relation to liquidity. The use of liquidity management tools by the management company occurs within the limits permitted under law and under supervisory observation. The FMA actively monitors every activation of a liquidity management tool to ensure that the management company acts appropriately and effectively to the stressed liquidity situation. In so doing, the FMA sets clear expectations for management companies with regard to the selection, activation, calibration and communications regarding liquidity management tools. Good practices, such as proactive information and regular reviewing of LMTs strengthen investor protection and financial market stability.

13 WHAT OTHER LIQUIDITY MANAGEMENT TOOLS ARE THERE?

The following liquidity management tools exist in addition to gating:

- suspension of redemption
- extension of redemption notice periods
- swing pricing
- dual pricing
- redemption fees
- anti-dilution levy
- redemption in kind
- side pockets or separations of illiquid assets

The fund regulations of every fund are required to define which liquidity management tools may be applied.

14 HOW LONG MAY GATING LAST?

The length of gating depends on market conditions, liquidity situation of the fund and the respective fund regulations. It is not possible to generally state a fixed maximum duration, and nor is it intended by law. The management company must review the measure on an ongoing basis, and as necessary adapt or deactivate the gating, or activate another liquidity management tool.

15 HOW DO INVESTORS FIND OUT WHETHER GATING HAS BEEN ACTIVATED FOR A FUND?

The management company informs investors via its communications channels, especially via:

- the company website,
- investor information,
- disclosures in accordance with the fund regulations,
- custodian banks.

This information as a rule contains the reason for the measure as well as the specific impacts of the measure on redemptions of unit certificates.

Further information is available (in German only) in the publication: [Reden wir über Aufsicht Nr. 11 – Liquiditätsmanagement für Investmentfonds: AIFMD II schafft neuen Rahmen](#)