A COMPARISON BETWEEN THE TECHNICAL COMMITTEE REPORT AND THE EMERGING MARKETS COMMITTEE REPORT ON VALUATION AND PRICING OF COLLECTIVE INVESTMENT SCHEMES

OICV-IOSCO

Joint Report by the Technical Committee
and the
Emerging Markets Committee
of the
International Organization of Securities Commissions

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Background

The IOSCO Technical Committee Working Group on Investment Management ('TC WG5'), and the Emerging Markets Committee Working Group on Investment Management ('EMC WG5'), have produced reports flowing from mandates to study regulatory approaches to the valuation and pricing of collective investment schemes ('CIS') and interests in CIS.

Members of TC WG5 considered it useful to make a comparison between the information relating to valuation and pricing of CIS interests in their member jurisdictions set out in their Summary report with the similar information in the EMC WG5 report. Such a comparison would promote a better understanding of the common issues that arise for members of the two groups, and would also identify areas of difference in regulatory approach or emphasis. This was considered particularly useful because of the increased CIS investment activities including cross-border activities that occur not only among TC WG 5 member jurisdictions but also involving some of EMC's member jurisdictions.

Substantial similarity between the two reports

Both reports were prepared on the basis of information provided by the respective members of the two groups in response to questionnaires dealing with valuation and pricing of CIS. The two questionnaires, although not identical in all respects, dealt with substantially similar aspects relating to valuation and pricing of CIS.

The key questions in both questionnaires were designed to ascertain:

- different regulatory approaches to, and methods of, valuation of CIS assets and pricing of CIS interests in member jurisdictions, depending on the nature of the underlying investments;
- disclosure obligations of CIS operators relating to valuation and pricing of CIS; and
- regulatory controls that are used to minimise inaccurate valuations and pricing of CIS.

Due to the above common coverage, both reports provide significant insight into common practices in valuation and pricing of CIS in the relevant member jurisdictions (note - although the EMC WG5 main report does not identify the specific jurisdictions in the individual analysis of each question, the attached summary of information provides this information).

Both reports highlight the use by many member jurisdictions of market price and forward pricing for the purposes of sale and redemption of CIS interests. The reports also highlight the common principles that underpin the valuation and pricing methods used in member jurisdictions. Such principles are consistent with or are premised upon the established IOSCO principles relating to valuation and pricing of CIS.

In particular, both reports highlight the importance of the IOSCO principle that valuation and pricing of CIS interests in member jurisdictions must strive to promote fair treatment of incoming, continuing and outgoing investors in CIS.

Some differences

Although there is a substantial commonality in the coverage of the two reports, the approach adopted in each report appears to be somewhat different. This difference stems from the fact that the two reports have different objectives.

The EMC WG5 report was not intended merely to identify different regulatory approaches and methods of valuation and pricing of CIS in their member jurisdictions. It was also designed:

- to identify to what extent the approaches and methods used in member jurisdictions are consistent with the IOSCO principles relating to valuation and pricing of CIS; and

- to develop, in light of that information, recommendations that will help those members which are currently enhancing or developing their regulation of CIS to promote greater consistency with IOSCO principles relating to valuation and pricing of CIS.

In contrast, the TC WG5 report was designed primarily to ascertain the regulatory approaches and methods used in the member jurisdictions for valuation and pricing of CIS for the purpose of sharing information to promote a greater understanding of jurisdictional differences. Therefore, the TC WG5 report does not contain any recommendations or best practice standards relating to valuation and pricing of CIS.

It is also noteworthy that the TC WG5 report deals in greater detail with aspects relating to regulatory mechanisms for dealing with errors and mispricing of CIS interests than the EMC WG5 report.

Further, while both the TC WG5 report and EMC WG5 report address the valuation of particular types of CIS assets, the list of assets that is dealt with in the TC WG5 report is more extensive than the list of assets that is dealt with in the EMC WG5 report. It is possible that, at this stage in their developments, the member jurisdictions of TC WG5 generally allow CIS to invest in a broader range of investments (such as derivatives, swaps and non-listed securities) than do the member jurisdictions of EMC WG5.

The above differences can be attributed to the fact that while TC WG5 member jurisdictions have valuation and pricing principles that are consistent with the IOSCO principles, some member jurisdictions in EMC WG5 are currently enhancing or developing their regulation of CIS, consistent with the development of securities markets in their jurisdictions.

Conclusion

Although there are some differences between the contents of the two reports as noted above, the substantially similar coverage of information relating to valuation and pricing of CIS in the two reports can greatly assist member jurisdictions of both groups to achieve a better understanding of the regulatory approaches and methods of valuation and pricing of CIS.