Press release

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FSB and IOSCO publish policies to address vulnerabilities from liquidity mismatch in open-ended funds

- ***Revised FSB Recommendations and IOSCO Guidance on Anti-Dilution Liquidity Management Tools (LMTs) aim to achieve a significant strengthening of liquidity management by open-ended fund (OEF) managers compared to current practices.***

- ***Measures aim to provide greater clarity on the redemption terms that OEFs could offer to investors, based on the liquidity of their asset holdings, and to ensure greater use and consistency in the use of anti-dilution LMTs.***

- ***FSB and IOSCO will review implementation progress and, by 2028, assess whether the implemented reforms have sufficiently addressed financial stability risks.***

The Financial Stability Board (FSB) today published revised policy recommendations to address structural vulnerabilities from liquidity mismatch in OEFs (Revised FSB Recommendations). Concurrently, to support the greater use and greater consistency in the use of anti-dilution LMTs by OEFs, the International Organization of Securities Commissions (IOSCO) has published final Guidance on Anti-Dilution LMTs (LMT Guidance) for the effective implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes.[1]

The Revised FSB Recommendations are addressed to financial regulatory and supervisory authorities. They set out the key objectives for an effective regulatory and supervisory framework to address vulnerabilities arising from liquidity mismatch in OEFs. Combined with the LMT Guidance, these recommendations aim to achieve a significant strengthening of liquidity management by OEF managers compared to current practices.

To address structural liquidity mismatch in OEFs, the Revised FSB Recommendations provide greater clarity on the redemption terms that OEFs can offer to investors, based on the liquidity

[1] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD590.pdf

of the OEF asset holdings. This would be achieved through a categorisation approach, where OEFs would be grouped depending on the liquidity of their assets (e.g., liquid, less liquid, illiquid). OEFs in each category would then be subject to specific expectations in terms of their redemption terms and conditions. Authorities should set expectations for OEF managers to use a mixture of quantitative and qualitative factors when determining the liquidity of OEF assets in normal and stressed market conditions within the context of the domestic liquidity framework set out by authorities. The Revised FSB Recommendations seek to achieve (i) greater inclusion of anti-dilution LMTs in OEF constitutional documents and (ii) greater use of, and greater consistency in the use of, anti-dilution LMTs in both normal and stressed market conditions.

To support these objectives and ensure more effective liquidity risk management practices, IOSCO's LMT Guidance provides detailed guidance on the design and use of anti-dilution LMTs by OEF managers. The LMT Guidance aims to support the greater use of anti-dilution LMTs by OEFs to mitigate investor dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.

The LMT Guidance sets out key operational, design, oversight, disclosure and other factors and parameters that responsible entities should consider when anti-dilution LMTs are used, to promote greater, more consistent, and more effective use of these tools. For example, responsible entities should have appropriate internal systems, procedures and controls in place at all times in compliance with applicable regulatory requirements for the design and use of anti-dilution LMTs as part of the everyday liquidity risk management of their OEFs. Furthermore, anti-dilution LMTs used by responsible entities should impose on subscribing and redeeming investors the estimated cost of liquidity. This encompasses the explicit and implicit transaction costs of subscriptions or redemptions, including any significant market impact of asset purchases or sales to meet those subscriptions or redemptions.

Looking ahead, IOSCO will consider how to further operationalise the Revised FSB Recommendations through amendments to the 2018 IOSCO Recommendations and supporting good practices, as needed.

The FSB and IOSCO will both review progress by member jurisdictions in implementing their respective revised Recommendations and guidance. This will begin with a stocktake, to be completed by the end of 2026, of the measures and practices adopted and planned by FSB member jurisdictions. IOSCO will aim to coordinate a stocktake of its recommendations and guidance with the FSB's stocktake to provide a comprehensive picture. The FSB and IOSCO will, by 2028, assess whether implemented reforms have sufficiently addressed risks to financial stability. This will include, if appropriate, assessing whether to refine existing tools or develop additional tools for use by fund managers or authorities.

Klaas Knot, Chair of the FSB, said *"The combined efforts of the FSB and IOSCO aim to mark a step change to liquidity risk management within OEFs. A key part of this is a strengthening of the framework around the use of LMTs at a global level. Swift and consistent implementation of these recommendations is critical to addressing financial stability risks arising from liquidity mismatch in OEFs."*

Jean-Paul Servais, Chair of IOSCO, said *"The FSB and IOSCO have worked closely together to deliver a comprehensive policy package designed to strengthen open-ended fund managers' liquidity management to improve investor protection and support financial stability.*

I commend Christina Choi, Chair of IOSCO's Committee on Investment Management, on developing IOSCO's guidance, which provides a robust supplement to the Revised FSB Recommendations, enabling effective adaptation by OEFs on a global scale."

Notes to editors

These recommendations form part of the FSB's work programme to enhance resilience in NBFI. Further details on this can be found in its latest progress report.

The Revised FSB Recommendations build on the FSB's December 2022 report on the *Assessment of the Effectiveness of the FSB's 2017 Recommendations on Liquidity Mismatch in Open-Ended Funds*. The assessment took place in parallel with IOSCO's review of the implementation of its 2018 *Recommendations for Liquidity Risk Management (LRM) for Collective Investment Schemes*. The Revised FSB Recommendations incorporate feedback provided during the FSB's public consultation on its proposed revisions to the 2017 FSB Recommendations. The FSB also published today an overview of the responses to its public consultation.

In response to the public consultation, the FSB sought to clarify the categorisation approach and provide more flexibility to authorities in implementing the framework in their respective jurisdictions; and to specify the policy expectation that anti-dilution LMTs would be increasingly used by funds mainly invested in less liquid assets.

In response to the public consultation, IOSCO provided more flexibility in the use of anti-dilution LMTs, specifying that the objective is to impose fair and reasonable transaction costs so as to mitigate material dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.

IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions. The IOSCO Board is the governing and standard-setting body of IOSCO and is made up of 35 securities regulators. Mr. Jean-Paul Servais, the Chair of Belgium's Financial Services and Markets

Authority (FSMA) is the Chair of the IOSCO Board. The IOSCO General Secretariat is headquartered in Madrid, Spain.

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