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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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IOSCO/MS/02/2012

Madrid, 16 February 2012

IOSCO consults on revised CIS Valuation Principles

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published a consultation report on [Principles for the Valuation of Collective Investment Schemes](#), setting out principles that can be used to assess the quality of regulation and industry practices concerning the valuation of collective investment schemes (CIS), thereby ensuring that investors are treated fairly.

This consultation report updates and modernises IOSCO's Principles for CIS Valuation, originally developed in 1999, to take into account subsequent regulatory, industry and market developments. It also clarifies some concepts put forward by IOSCO in its report *Principles for the Valuation of Hedge Fund Portfolios*, such as the entity responsible for establishing a policy governing valuation and the independence of the valuation duty.

Valuation of Collective Investment Schemes

The implementation of comprehensive policies and procedures for valuation of CIS assets is a fundamental principle underpinning this sector. It is critical that a CIS properly value all assets in its portfolio, including those instruments for which market quotations are not readily available. CIS valuations are extremely important because if portfolio securities and assets are incorrectly valued, investors may unfairly pay more for their shares or receive less upon redemption, while remaining investors may also be adversely affected.

IOSCO seeks comments on the proposed principles as well as the following specific concerns:

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- Do these principles adequately address the regulatory issues raised by the valuation of CIS?
- Are potential conflicts of interest appropriately addressed? Do you see a need for more stringent principles in this area?
- In particular, does the principle on the NAV at which the purchase and redemption of CIS interests should be effected adequately cover the issues?
- Are there other areas that IOSCO should address?

Draft Principles for the Valuation of Collective Investment Schemes

The draft principles are:

1. The Responsible Entity should establish comprehensive, documented policies and procedures to govern the valuation of assets held or employed by a CIS;
2. The policies and procedures should identify the methodologies that will be used for valuing each type of asset held or employed by the CIS;
3. The valuation policies and procedures should seek to address conflicts of interest;
4. The assets held or employed by CIS should be consistently valued according to the policies and procedures;
5. A CIS should have policies and procedures in place that seek to detect and prevent pricing errors. Pricing errors that result in a material harm to CIS investors should be addressed promptly, and investors fully compensated;
6. The Responsible Entity should provide for the periodic review of the valuation policies and procedures to seek to ensure their continued appropriateness;
7. The Responsible Entity should provide for the periodic review of the valuation policies and procedures to seek to ensure that they are being implemented effectively;
8. A third-party should review the CIS's valuation process at least annually;

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9. The Responsible Entity should conduct initial and periodic due diligence on third parties that are appointed to perform valuation services;
10. The Responsible Entity should seek to ensure that arrangements in place for the valuation of the assets in the CIS's portfolio are disclosed appropriately to investors in the CIS offering documents or otherwise made transparent to investors;
11. The purchase and redemption of CIS interests should not be effected at historic NAV;
12. A CIS's portfolio should be valued on any day that CIS units are purchased or redeemed; and
13. A CIS's NAV should be available to investors at no cost.

The IOSCO Technical Committee Standing Committee on Investment Management (TCSC5) previously examined CIS valuation in the 1999 report, *Regulatory Approaches to the Valuation and Pricing of Collective Investment Schemes*.

The consultation period is open for comments until 18 May 2012.

NOTES FOR EDITORS

1. [CR01/12 Principles for the Valuation of Collective Investment Schemes](#).
2. [Regulatory Approaches to the Valuation and Pricing of Collective Investment Schemes](#), May 1999.
3. [Principles for the Valuation of Hedge Fund Portfolios](#), November 2007.
4. IOSCO is the leading international policy forum for securities regulators is recognised as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in 115 jurisdictions and its membership continues to expand.
5. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of 18 agencies that regulate some of the world's larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial

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Services Agency of Japan (JFSA), is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.

6. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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