MEDIA RELEASE

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

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IOSCO Consults on Principles of Liquidity Risk Management for Collective Investment Schemes

The Technical Committee of the International Organization of Securities Commissions has published the consultation report *Principles of Liquidity Risk Management for Collective Investment Schemes*, which outlines a set of principles against which both the industry and regulators can assess the quality of regulation and industry practices relating to liquidity risk management for collective investment schemes (CIS).

Since the outbreak of the global financial crisis, the issue of liquidity has been a major concern for regulators, although the discussions on regulatory reform have focused more on the importance of liquidity in the banking sector rather than in other sectors. However, the asset management sector has specificities to be kept in mind when setting policy recommendations.

Good liquidity risk management is a key feature of the correct operation of a CIS, as the right to redeem units/shares is a defining characteristic of open-ended schemes. Liquidity risk management is complex and a CIS may experience liquidity issues as, for example, when the market in which it is invested closes unexpectedly. However, asset managers have regulatory and practical tools to manage liquidity both on the asset side and on the investor side. In exceptional circumstances, a liquidity issue could lead to a CIS temporarily suspending all investor redemptions. IOSCO recently published the report *Principles on Suspensions of Redemptions in Collective Investment Schemes* addressing this issue.

The fundamental requirement of liquidity risk management is to ensure that the degree of liquidity that the open-ended CIS manages allows it in general to meet redemption obligations and other liabilities. The principles of liquidity risk management provide details on how compliance with this requirement can be achieved. Generally, these principles aim to reflect a level of common approach and to be a practical guide for regulators and industry practitioners. Implementation of the principles may vary from jurisdiction to jurisdiction, depending on local circumstances and legal and regulatory structures.

The Principles of liquidity risk management for CIS

The principles of liquidity risk management for CIS are divided into two groups related to the life span of a CIS: the pre-launch and the day-to-day liquidity risk management. They include the following:

Principle 1
The responsible entity should draw up an effective liquidity risk management process, compliant with local jurisdictional liquidity requirements

Principle 2
The responsible entity should set appropriate liquidity limits which are proportionate to the redemption obligations and liabilities of the CIS

Principle 3
The responsible entity should carefully determine a suitable dealing frequency for units in the CIS

Principle 4
Where permissible and appropriate for a particular CIS, and in the interests of investors, the responsible entity should include the ability to use specific tools or exceptional measures which could affect redemption rights in the CIS's constitutional documents

Principle 5
The responsible entity should consider liquidity aspects related to its proposed distribution channels

Principle 6
The responsible entity should ensure that it will have access to, or can effectively estimate, relevant information for liquidity management

Principle 7
The responsible entity should ensure that liquidity risk and its liquidity risk management process are effectively disclosed to prospective investors

Principle 8
The responsible entity should effectively perform and maintain its liquidity risk management process

Principle 9
The responsible entity's liquidity risk management process must be supported by strong and effective governance

Principle 10
The responsible entity should regularly assess the liquidity of the assets held in the portfolio

Principle 11
The responsible entity should integrate liquidity management in investment decisions

Principle 12
The liquidity risk management process should facilitate the ability of the responsible entity to identify an emerging liquidity shortage before it occurs

Principle 13
The responsible entity should be able to incorporate relevant data and factors into its liquidity risk management process in order to create a robust and holistic view of the possible risks

Principle 14
The responsible entity should conduct assessments of liquidity in different scenarios, including stressed situations

Principle 15
The responsible entity should ensure appropriate records are kept, and relevant disclosures made, relating to the performance of its liquidity risk management process

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NOTES FOR EDITORS

1. 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.

2. 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 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.

3. 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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