MEDIA RELEASE

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Organisation internationale des commissions de valeurs
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Loan Funds – important niche products to fund the real economy

The Board of the International Organization of Securities Commissions (IOSCO) today published the report *Findings of the Survey on Loan Funds*, which describes how the market for Loan Funds has evolved in different jurisdictions and explains how regulators are addressing the risks associated with these funds.

The exercise is part of IOSCO´s on-going effort to build a robust, sustainable system of market-based finance.

Loan funds are a unique type of fund that represents a relatively small share of the global fund industry. Though they are different from traditional funds, they are increasingly becoming an important niche product to finance the real economy and are considered an alternative to traditional financial channels.

There are two types of Loan Funds: A Loan Originating Fund whose strategy allows it to grant, restructure and acquire loans; and a Loan Participating Fund that can acquire and restructure partially or entirely existing loans originated by banks and other institutions, either directly from the lender or on secondary markets. These funds comprise both open-ended and closed-ended funds, and are marketed to both retail and professional investors.

Based on the findings of an IOSCO survey, the report presents the current state of affairs regarding Loan Funds in various jurisdictions and identifies the following risks associated with these funds:

- Liquidity risk: loans are hard to value and, since they are also hard to trade, they are very illiquid assets;
- Credit risks: the risk of a default of the borrower;

- Systemic risks from excessive credit growth; and
- Regulatory arbitrage.

Despite the risks, many jurisdictions consider their general rules for funds to be sufficient to address the specificities of Loan Funds. Therefore, the report concludes that further work on Loan Funds is not warranted at this stage. It notes, however, that IOSCO will continue to monitor this segment of the fund industry with a view to possibly revisiting it for further work, depending on market developments.

NOTES TO THE EDITORS

1. 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 more than 115 jurisdictions and it continues to expand.

2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 34 securities regulators. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Jamaica, Japan, Kenya, Malaysia, Mexico, Nigeria, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Korea, Spain, Sweden, Switzerland, the Netherlands, Turkey, the United Kingdom, and the United States of America.

3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia and Vice Chair of the IOSCO Board, is the Chair of the GEM Committee. The Committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.

4. IOSCO aims through its permanent structures:

   - to cooperate in developing, implementing and promoting adherence to internationally recognized 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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