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
المنظمة الدولية لهيئات الأوراق المالية

IOSCO/MR/02/2018

Madrid 1 February 2018

IOSCO issues recommendations and good practices to improve liquidity risk management for investment funds

The Board of the International Organization of Securities Commissions (IOSCO) has issued today final recommendations that seek to improve liquidity risk management practices of open-ended collective investment schemes (CIS) as part of its mission to protect investors, ensure fair and efficient financial markets and reduce systemic risk. IOSCO has also simultaneously published a final report that provides practical information, examples and good practices regarding open-ended fund liquidity risk management, to supplement its recommendations.

The final report, *Recommendations for Liquidity Risk Management for Collective Investment Schemes*, sets out IOSCO's recommendations to entities responsible for managing the liquidity of CIS (responsible entities) to ensure that liquidity is managed to safeguard and protect the interests of investors, including in stressed market conditions. In addition to its recommendations to responsible entities, the final report includes IOSCO's additional guidance to securities regulators to promote good liquidity management practices for CIS.

The final report replaces the liquidity risk management framework contained in IOSCO´s 2013 report *Principles of Liquidity Risk Management for Collective Investment Schemes.* It also constitutes the final step in IOSCO's response to address potential structural vulnerabilities in the asset management sector identified by the Financial Stability Board (FSB) that could impact financial stability, and, has been prepared in light of the FSB's *Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*" recommendations published in January 2017.

Drawing on feedback from its consultation in July 2017, IOSCO has built on its previous framework by re-affirming and enhancing previous guidance. It has also supplemented its earlier work with additional recommendations: notably, the consideration of underlying liquidity throughout the entire life cycle of the fund (design, pre-launch, launch and ongoing daily operation); the alignment between asset portfolio and redemption terms; availability and effectiveness of liquidity risk management tools; fund level stress testing; detailed guidance on disclosure to investors; and additional recommendations on contingency planning.

In publishing the final report, IOSCO is also reiterating its belief that in the first instance, the best line of defense against any structural vulnerabilities that could potentially develop into extended market dislocations and financial instability is for responsible entities to have robust liquidity risk management programs. Securities regulators also have important roles in encouraging and overseeing the development and execution of these programs to help minimize the possibility of adverse effects on markets when responsible entities do not properly manage a CIS' liquidity.

IOSCO expects securities regulators to ensure the effective implementation of the recommendations and promote their application by responsible entities. IOSCO intends to assess implementation across relevant jurisdictions in two to three years' time.

The final report on good practices *Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration,* is intended to assist regulators, the industry, and investors. For regulators, the paper can act as a reference guide that illustrates how various jurisdictions regulate liquidity risk practices within their remit. For the industry, the examples describe where, when and how certain tools have been used in the past and how they can be used in the future. Additionally, the report describes good practices for liquidity risk management throughout the entire life cycle of a fund. For investors, this document outlines scenarios in which an asset manager may use liquidity management tools to manage liquidity issues in certain funds.

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. Mr. 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, Korea, Malaysia, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Panama, Quebec, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States of America.

3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Mr. 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.

MEDIA ENQUIRIES

Carlta Vitzthum	+ 34 91 787 0419
Outside office hours	+ 34 697 449 639
Email:	carlta@iosco.org
Website:	www.iosco.org

Follow IOSCO on Twitter here