MEDIA RELEASE

International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

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IOSCO Proposes Detailed Guidance for Open-Ended Fund use of Anti-Dilution Liquidity Management Tools

The Board of the International Organization of Securities Commissions (IOSCO) today published a consultation report on *Anti-dilution Liquidity Management Tools – Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes*. The report provides detailed guidance to support greater and more consistent use of anti-dilution liquidity management tools by responsible entities for open-ended funds – in both normal and stressed market conditions.

Anti-dilution liquidity management tools form a critical component of an overall liquidity risk management framework for open-ended funds. Remaining open-ended fund investors are disadvantaged, and transacting investors potentially benefit, if transacting investors do not bear the costs of liquidity associated with fund subscriptions/redemptions. The consistent use of well-calibrated anti-dilution liquidity management tools by responsible entities addresses these investor protection concerns by passing on to transacting open-ended fund investors the costs of liquidity otherwise born by the portfolio, by adjusting the price at which they transact to account for explicit and implicit costs of trading. In a stressed market scenario, the deployment of well-calibrated anti-dilution liquidity management tools can also dampen the impact of open-ended fund buying and selling activities in underlying asset markets (including those associated with a potential first mover advantage) – and thus support financial stability.

IOSCO is publishing this consultation report in coordination with the FSB's consultation on *Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revisions to the FSB's 2017 Policy Recommendations*. Implementation of the revised FSB Recommendations, combined with the new IOSCO guidance on anti-dilution liquidity management tools, is expected to lead to a significant strengthening of liquidity management by open-ended fund managers compared to current practices.

Jean-Paul Servais, Chair of the IOSCO Board, said: *"IOSCO is committed to promoting the implementation of strong liquidity risk management in support of the orderly functioning of open-ended funds and underlying asset markets, investor protection, and the reduction of systemic risk. The proposed liquidity management tools guidance supports that objective by adding useful granularity to IOSCO's existing open-ended funds liquidity risk management framework on the use of anti-dilution liquidity management tools, including the 2018 Recommendations for Liquidity Risk Management for Collective Investment Schemes and Good Practices for Open-ended Fund Liquidity and Risk Management."*

Christina Choi, Chair of IOSCO Committee 5 on Investment Management, said: *"The proposed guidance sets out key operational, design, oversight, disclosure and other factors and parameters for anti-dilution liquidity management tools, taking into consideration the barriers and disincentives to their implementation. While the guidance indicates that responsible entities are best placed to manage the liquidity of their open-ended funds, we also expect industry to improve practices in this area for the benefit of investors and markets."*

The guidance identifies five anti-dilution liquidity management tools: swing pricing, valuation at bid or ask prices, dual pricing, anti-dilution levies, and subscription / redemption fees. The guidance covers the design and use of anti-dilution liquidity management tools by open-ended funds including calibration of liquidity costs and appropriate activation thresholds; oversight of liquidity management tools by fund boards, managers' boards or depositories; disclosure to investors; and overcoming barriers to effective implementation.

IOSCO is seeking input from market participants on the proposed guidance, including 25 consultation questions aimed at soliciting very specific feedback to help inform the final guidance. Comments on the consultation report should be sent to LMTGuidanceConsultation@iosco.org on or before 4 September 2023.

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 some 130 jurisdictions, and it continues to expand.

2. 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 members of the IOSCO Board are the securities regulatory authorities of Australia, Bahamas, Bangladesh, Belgium, Brazil, China, Egypt, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Korea, Kuwait, Malaysia, Mauritius, Mexico, Morocco, the Netherlands, Oman, Ontario, Peru, Quebec, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Türkiye, the United Kingdom and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO´s Affiliate Members Consultative Committee are also observers.

3. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing more than 75% per cent of the IOSCO membership, including 10 of the G20 members. Dr Mohamed Farid Saleh, Executive Chairman of the Financial Regulatory Authority, Egypt is 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, amongst 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 internationally recognized and consistent standards of regulation, oversight and enforcement 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 to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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