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IOSCO Publishes Consultation Report on Updated Liquidity Risk Management Recommendations for Collective Investment Schemes

Also seeks feedback on complementary Guidance for Open-ended Funds to support effective implementation of Recommendations

IOSCO has today published a [Consultation Report](#) seeking feedback on its revised recommendations for Liquidity Risk Management for Collective Investment Schemes (“CIS”) (the ‘Revised LRM Recommendations’), especially for open-ended funds. IOSCO is also consulting on complementary [Guidance for the Effective Implementation of the Recommendations for Liquidity Risk Management](#) (“Implementation Guidance”).

Effective liquidity risk management is crucial for protecting investors, maintaining orderly markets and reducing systemic risk.

Jean-Paul Servais, Chair of IOSCO’s Board and Chairman of the Belgium Financial Services & Markets Authority (FSMA), said: *“Today marks another landmark in our commitment to strengthening the stability and resilience of the investment fund sector, which builds on IOSCO’s close collaboration with the FSB following the release of their revised recommendations and guidance on anti-dilution liquidity management tools last year”.*

Originally published in 2018, IOSCO’s Liquidity Risk Management (LRM) Recommendations were published in response to the FSB’s 2017 Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities that aimed to address structural vulnerabilities from liquidity mismatch in open-ended funds. Today’s Revised LRM Recommendations take into consideration the FSB’s revised Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds (“Revised FSB Recommendations”) from December 2023, as well as recent market events such as the COVID-induced market volatility and those following the war in Ukraine.

The proposals consist of 17 recommendations organized into a revised structure with six sections, namely the CIS Design Process, Liquidity Management Tools and Measures, Day-

to-Day Liquidity Management Practices, Stress Testing, Governance and Disclosures to Investors and Authorities.

The key proposed revisions to the LRM Recommendations correspond to the targeted revisions from the Revised FSB Recommendations and can be grouped into four main areas:

- Categorizing open-ended funds (OEFs) based on the liquidity of their assets
- Encouraging investment managers to implement a broad set of liquidity management tools (LMTs) and other liquidity management measures.
- Emphasizing the importance of anti-dilution LMTs to mitigate material investor dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.
- Incorporating new guidance on quantity-based LMTs and other liquidity management measures.

The accompanying Implementation Guidance, also for consultation, sets out technical elements focusing on open-ended funds, such as the determination of asset and portfolio liquidity and considerations relating to the calibration and activation of LMTs and other liquidity management measures.

Christina Choi, Chair of IOSCO's Committee for Investment Management (C5) said: *"Effective liquidity risk management is vital for safeguarding investors and ensuring the stability of our financial markets. Our revised recommendations build on the good work of the FSB and IOSCO in 2023 and also draws from lessons learned from recent market challenges, setting out robust parameters for asset managers to consider as they look to improve their liquidity management practices"*.

The proposed Revised LRM Recommendations and the proposed Implementation Guidance incorporate IOSCO's *Anti-dilution Liquidity Management Tools – Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes* published in 2023 and should be read in conjunction with each other for completeness.

Consultation feedback is requested by **11 February 2025**. IOSCO aims to publish its Final Report in the first half of 2025.

Notes to Editors

1. IOSCO is the leading international policy forum for securities regulators and the global standard setter for financial markets regulation. It develops, implements and promotes adherence to internationally recognized standards for financial markets regulation and works closely with other international organizations on the global regulatory reform agenda.

2. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions. By providing high quality technical assistance, education and training, IOSCO supports its members to come together to achieve the following three objectives.

- Enhance investor protection;
- Ensure markets are fair and efficient;
- Promote financial stability by reducing systemic risk.

3. 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. Shigeru Ariizumi, Vice Minister for International Affairs, Financial Services Agency, Japan, Dr Mohamed Farid Saleh, Executive Chairman of the Financial Regulatory Authority, Egypt, and Rostin Behnam, Chair of the U.S. Commodity Futures Trading Commission, are the Vice-Chairs of IOSCO Board.

4. IOSCO and the FSB carried out follow-up policy work in 2023 to enhance the effectiveness of the 2017 FSB Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities ("FSB 2017 Recommendations"). The FSB, in consultation with IOSCO, undertook targeted revisions to the FSB Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds ("Revised FSB Recommendations"). Alongside this, IOSCO developed, in consultation with the FSB, its Anti-dilution Liquidity Management Tools – Guidance for Effective Implementation of Recommendations for Liquidity Risk Management for Collective Investment Schemes ("ADT Guidance").

IOSCO and the FSB concurrently published the respective reports in December 2023.

<https://www.iosco.org/news/pdf/IOSCONEWS721.pdf>

The ADT Guidance was the first step in operationalising the Revised FSB Recommendations, with the understanding that IOSCO would further operationalise the Revised FSB Recommendations through revisions, as appropriate, to IOSCO's Recommendations for Liquidity Risk Management for Collective Investment Schemes ("IOSCO 2018 LRM Recommendations"), as supplemented by a set of related good practices published as Open-ended Fund Liquidity and Risk Management – Good Practices and Issues for Consideration ("IOSCO 2018 Good Practices").

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