INVESTMENT COMPANY INSTITUTE

**MEMO# 30373**

November 1, 2016

# Comment Letter on IOSCO's Consultation on Good Practices for Fund Termination

[30373]

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TO: ICI Members
ICI Global Members SUBJECTS: International/Global RE: Comment Letter on IOSCO's Consultation on Good Practices for Fund Termination

On October 13 we filed the attached letter responding to the International Organization of Securities Commissions (IOSCO) consultation report on Good Practices for the Termination of Investment Funds (CR04/2016) (Report).[1] The Report proposes good practices on the voluntary termination process for collective investment schemes and other fund structures such as commodity, real estate and hedge funds (collectively, funds). The practices are intended for both open-end and closed-end funds and are not limited to retail funds.

In the letter we generally support IOSCO issuing the proposed good practices and feel that they, as a whole, provide a useful framework for ensuring that fund terminations and mergers are effectuated in a manner that protects the interests of investors. We clarify, however, that our support is predicated upon IOSCO’s statement that not all of the listed good practices will be applicable in all circumstances given the individual nature of investment fund terminations.

We express our specific concerns with five of the fifteen good practices, suggesting that they either be deleted or revised. In particular, we argue that the custodian of an investment fund should not be required to hold illiquid securities or securities with nil value until such time as a value can be realized, and that the custodian should not be required to approve the termination plan. We also disagree with the principle stating that the responsible entity should consider suspending investor subscriptions and redemptions during the termination process, and instead recommend that the responsible entity be required to consider a full range of options in order to appropriately balance the interests of shareholders. We also urge IOSCO to delete the principle that provides that the responsible entity should only merge funds with similar investment objectives, policies and risk profiles, to the extent possible, because this may not always be in the best interest of investors. Lastly, we recommend revising the principle on allocation of costs to require the responsible entity to carefully consider the allocation of costs in connection with a merger, and to document in the investor communication when funds will bear merger expenses.

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Attachment

**endnotes**

[1] The Report is available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD542.pdf.