

MEMO# 26219

June 6, 2012

IOSCO Consults on Liquidity Risk Management for Collective Investment Schemes

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TO: INTERNATIONAL COMMITTEE No. 17-12
SEC RULES COMMITTEE No. 36-12 RE: IOSCO CONSULTS ON LIQUIDITY RISK MANAGEMENT FOR COLLECTIVE INVESTMENT SCHEMES

On April 26, 2012, the Technical Committee of the International Organization of Securities Commissions (“IOSCO”) published a consultation report, Principles of Liquidity Risk Management for Collective Investment Schemes (the “Report”). [\[1\]](#) The Report sets forth proposed principles relating to liquidity risk management for collective investment schemes (“CIS”). IOSCO states that the right to redeem shares is a defining characteristic of open-ended CIS, and that good liquidity risk management, therefore, is a key feature of the correct operation of a CIS. Referencing its Principles on Suspensions of Redemptions in Collective Investment Schemes, IOSCO states that the fundamental requirement of liquidity risk management is to “...ensure that the degree of liquidity of the open-ended CIS [the responsible entity] manages allows it in general to meet redemption obligations and other liabilities.”

The principles below are proposed by IOSCO to provide more detail on how compliance with the requirement of liquidity risk management can be achieved. [\[2\]](#)

1. The responsible entity should draw up an effective liquidity risk management process, compliant with local jurisdictional liquidity requirements.
2. The responsible entity should set appropriate liquidity limits which are proportionate to the redemption obligations and liabilities of the CIS.
3. The responsible entity should carefully determine a suitable dealing frequency for units in the CIS.
4. Where permissible and appropriate for a particular CIS, and in the interests of investors, the responsible entity should include the ability to use specific tools or exceptional measures which could affect redemption rights in the CIS’s constitutional documents.

5. The responsible entity should consider liquidity aspects related to its proposed distribution channels.
6. The responsible entity should ensure that it will have access to, or can effectively estimate, relevant information for liquidity management.
7. The responsible entity should ensure that liquidity risk and its liquidity risk management process are effectively disclosed to prospective investors.
8. The responsible entity should effectively perform and maintain its liquidity risk management process.
9. The responsible entity's liquidity risk management process must be supported by strong and effective governance.
10. The responsible entity should regularly assess the liquidity of the assets held in the portfolio.
11. The responsible entity should integrate liquidity management in investment decisions.
12. The liquidity risk management process should facilitate the ability of the responsible entity to identify an emerging liquidity shortage before it occurs.
13. The responsible entity should be able to incorporate relevant data and factors into its liquidity risk management process in order to create a robust and holistic view of the possible risks.
14. The responsible entity should conduct assessments of liquidity in different scenarios, including stressed situations.
15. The responsible entity should ensure appropriate records are kept, and relevant disclosures made, relating to the performance of its liquidity risk management process.

IOSCO seeks comment on the principles, as well as on the following:

- Are there any other principles that should be included?
- Have you any other comments on the subject of liquidity risk management?

Comments are due August 2, 2012. The Institute intends to submit a comment letter. If you have any concerns with the Report, please contact me (202-326-5837; emykolenko@ici.org) or Susan Olson (202-326-5813; solson@ici.org).

Eva M. Mykolenko
Associate Counsel - International Affairs

endnotes

[1] IOSCO, Principles of Liquidity Risk Management for Collective Investment Schemes, CR06/12 (April 2012), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD378.pdf>.

[2] IOSCO acknowledges that the principles are not directly applicable to firms and that the implementation of the principles may vary by jurisdiction depending on local legal

structures, conditions, and circumstances.

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