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IOSCO Publishes Investment Funds Statistics Report

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The International Organization of Securities Commissions (IOSCO) published on January 27, 2023, the second edition of its Investment Funds Statistics Report (IFSR).[1] The report contains an analysis of national-level aggregated data, which is sourced directly from supervisory data. This is the second year where data on Open Ended Funds (OEFs) and Closed Ended Funds (CEFs) has been included in the analysis. As such, the report's analytical scope is expanded beyond its predecessor, the IOSCO Hedge Funds Survey Report, which was published between 2009-2018. This memo summarizes the findings of the report, which is based on year-end 2021 data.

Throughout the report, IOSCO caveats that the collection of investment funds data (particularly OEF and CEF data) remains uneven across jurisdictions (and EU jurisdictions in particular), due to varying national reporting requirements. For example, the chapter on OEF liquidity is nothing more than a placeholder precisely because: (1) "...a large proportion of the OEFs universe is not adequately captured by this report"; and (2) where liquidity metrics are reported, they are not comparable across jurisdictions at this current juncture. The CEF section omits the chapter on liquidity altogether, as liquidity mismatch is of lesser concern for this segment of the investment funds industry.

Despite those limitations, the IOSCO report provides a useful year-end snapshot of the global industry, based on a consolidated collection of supervisory data. The number of participating jurisdictions has increased for all three fund types, as has the total net asset value (NAV), with an increase of 28% for OEFs, 42% for CEFs, and 19% for Hedge Funds. The report also clearly highlights the geographical divide between the size of the US-domiciled and EU-domiciled industries. Figures 15 and 16 highlight that participating EU jurisdictions are home to more than double the number of OEFs than the United States (33,447 vs 12,951). Yet, that picture is reversed when looking at the total NAV of EU-domiciled funds (US$14.4 trillion) against that of the US (US$32.1 trillion).

The report reaffirms that, when compared to hedge funds, OEFs hold little leverage both in terms of gross notional exposure and financial leverage. The 2021 data shows that gross leverage (1.85x NAV) increased slightly from the previous year (1.68x NAV). Most of the change year-on-year was due to an increase in the use of synthetic leverage (0.81x NAV, up from 0.61x NAV).

The data also shows that CEFs hold little leverage. Gross leverage (1.05x NAV) decreased compared to last year (1.21x NAV). IOSCO continues to caution, however, that this picture may mask the use of leverage employed by private equity funds, where the leverage is added to the balance sheet of the investee company. Consequently, the use of such leverage is currently beyond the scope of regulatory data collection.

Finally, for the Hedge Funds sector, the data highlights that the aggregate level of leverage (gross) declined (10.8x NAV, down from 12.4x NAV in 2020). According to the report, hedge funds' portfolio liquidity exceeds the liquidity offered to investors. In normal market conditions, it should allow those funds to meet investor redemptions. However, IOSCO cautions that, in practice, there are other liquidity demands that hedge funds may face - such as margin calls - that are not captured by the report methodology, since such data is not currently collected on a regular basis by national competent authorities.

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[1] The IOSCO 2023 Investment Funds Statistics Report is available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD725.pdf.