

16 June 2023

FSB and IOSCO Open-Ended Funds Consultations Launch Event

Wednesday 12 July 2023 10:00-15:00 IST / 11:00-16:00 CEST

Hosted at the Central Bank of Ireland, Dublin

Summary Agenda

Objective

The Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) are organising a joint stakeholder outreach event to launch their respective consultations on liquidity risk and its management in open-ended funds (OEFs), which will be published in early July. The event, which will be hosted by the Central Bank of Ireland, will be held in a hybrid format to enable virtual participation by the public.

The planned FSB consultation report on *Addressing Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Revisions to the FSB's 2017 Policy Recommendations* will set out proposed changes to the FSB's *Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities* in relation to liquidity mismatch in OEFs. The proposed changes set out the key objectives of an effective regulatory and supervisory framework to address the vulnerabilities arising from liquidity mismatch in OEFs. The proposals form part of the FSB's work programme on non-bank financial intermediation (NBF) and should be read in conjunction with the proposed IOSCO guidance on anti-dilution liquidity management tools (LMTs).

The planned IOSCO consultation report is on *Anti-dilution Liquidity Management Tools – Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes*. The guidance will be addressed to responsible entities to support greater use of anti-dilution liquidity management tools by OEFs to mitigate investor dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.

The launch event provides an opportunity for the FSB and IOSCO to provide an overview of the main proposals in their consultations and for participants to provide their early feedback on the consultations. External stakeholders also will have the opportunity to provide written comments on these documents until the beginning of September.

The first session (10:00 – 12:00 IST) will cover the IOSCO LMT guidance, and the second session (13:00 – 15:00 IST) will cover the revised FSB Recommendations (see below for further details on the agenda).

Background

The 2017 FSB Recommendations aimed to strengthen regulatory reporting and public disclosure to facilitate assessment of liquidity risk in OEFs; promote liquidity management at the OEF design phase and on an ongoing basis; widen the availability of LMTs and their use in stressed conditions; and promote fund-level and system-wide stress testing. IOSCO operationalised most of the FSB Recommendations related to liquidity mismatch by issuing, in 2018, *Recommendations for Liquidity Risk Management (LRM) for Collective Investment Schemes* (the “IOSCO Recommendations”) supplemented with a set of related good practices as a reference guide.

The FSB assessed the effectiveness of its Recommendations last year, and the main findings and policy implications were included in the FSB’s December 2022 report on the *Assessment of the Effectiveness of the FSB’s 2017 Recommendations on Liquidity Mismatch in Open-Ended Funds*. The assessment took place in parallel with IOSCO’s thematic review of the implementation of its 2018 recommendations.

The FSB assessment report concluded that authorities have made meaningful progress in implementing the 2017 FSB Recommendations. Nevertheless, lessons learnt since their publication, including during the March 2020 market turmoil, have produced new insights into liquidity management challenges in segments of the OEF sector. While the assessment suggested that the FSB Recommendations remain broadly appropriate, it noted that enhancing clarity and specificity on the policy outcomes the Recommendations seek to achieve would make them more effective from a financial stability perspective. The report also noted that there was material variation in how LMTs were used and highlighted the need for increasing the use and consistency in use of LMTs, in particular anti-dilution tools that are intended to pass on the cost of liquidity to redeeming shareholders in both normal and stressed market conditions.

Based on this assessment, certain enhancements to the existing international recommendations and related guidance would significantly strengthen the current framework and OEF liquidity management practices, benefitting financial stability as well as investor protection. The FSB and IOSCO are carrying out follow-up work based on the assessment’s findings. This includes revisions by the FSB to its Recommendations to address structural liquidity mismatch and promote greater use of LMTs as well as to clarify the appropriate roles of fund managers and authorities in implementing these Recommendations; and the development of detailed guidance by IOSCO on the design and use of LMTs. The consultation reports in these two areas are the main focus of the joint stakeholder outreach event.

Agenda

1. IOSCO consultation on Anti-dilution Liquidity Management Tools (10:00-12:00 IST; 11:00-13:00 CEST)

Objective: To discuss the content and consultation questions of the LMT Guidance.

- Welcome and opening remarks by IOSCO Secretary General, Martin Maloney (10:00 – 10:10)
- Presentation on the LMT Guidance by IOSCO C5 Chair Christina Choi (Executive Director, Hong Kong Securities and Futures Commission) and Project Lead Jessica Reyes (Head of Asset Management Policy, Regulatory Policy and International Affairs Directorate, Autorité des Marchés Financiers France) (10:10 – 10:30)
- Panel discussion and Q&A on the LMT Guidance, moderated by IOSCO Secretary General, Martin Maloney (10:30 – 12:00)

2. FSB consultation on Liquidity Mismatch in Open-Ended Funds (13:00-15:00 IST; 14:00-16:00 CEST)

Objective: To discuss the content and consultation questions of the revised FSB Recommendations.

- Welcome and opening remarks by FSB Deputy Secretary General Rupert Thorne (13:00 – 13:10)
- Presentation of the proposed revisions to the FSB Recommendations by the FSB Open-Ended Funds Working Group (OEFWG) Co-Chairs Christina Choi (Executive Director, Hong Kong Securities and Futures Commission) and Sharon Donnery (Deputy Governor, Central Bank of Ireland) (13:10 – 13:30)
- Panel discussion and Q&A on the proposed revisions to the FSB Recommendations, moderated by OEFWG Co-Chair Sharon Donnery (13:30 – 14:50)
- Closing remarks from the OEFWG Co-Chairs Christina Choi and Sharon Donnery (14:50 – 15:00)