IOSCO Revised recommendations for liquidity risk management for collective investment schemes

November 2025

The International Organization of Securities Commission (IOSCO) has revised its 2018 recommendations on liquidity risk management (LRM) for collective investment schemes (CISs). These revised recommendations are complemented by implementation guidance[1], which contains concrete examples of good practices from different jurisdictions and can serve as a model for adopting the recommendations. This revision incorporates changes from the recent review of the Financial Stability Board (FSB) recommendations of December 2023 on liquidity mismatch risk in open-ended investment funds[2] (OEFs).

The report supports regulatory convergence and robust market practices in CIS LRM, addressing investor protection and mitigating systemic risks from liquidity mismatches through improved design processes, liquidity management tools (LMTs), operational practices, governance, and disclosure. Appropriate liquidity management frameworks are essential for both open- and closed-ended CISs (though recommendations focus on OEFs), ensuring that asset liquidity aligns with redemption terms.

The **main developments** concern:

- The **classification of CISs into three categories according to the liquidity profile of their underlying assets**:
    1. Funds primarily invested in **mainly liquid assets** may offer daily redemption without the need for anti-dilution tools, as dilution risk in this category is considered minimal.
    2. Funds with a focus on **less liquid assets** can also offer daily redemptions, provided they implement anti-dilution mechanisms to pass on transaction or liquidity costs arising from asset sales needed to meet outflows.
    3. Funds with **significant allocations to illiquid assets** should restrict redemption frequency and/or require longer notice or settlement periods.
- Reinforcing the need for authorities to ensure that a **broad set of LMTs**—both anti-dilution and quantity-based—is available to open-ended fund managers, for use under both normal market conditions and periods of market stress.
- Encouraging **wider adoption and consistent application of anti-dilution LMTs** across the industry.

The report notes significant global variation in CIS regulation and supervisory frameworks. IOSCO expects securities regulators to promote adoption of the revised recommendations at national level, adapted to local contexts. An implementation stock-take will be conducted, in coordination with the FSB, by end-2026 to assess the effectiveness of reforms in enhancing financial stability and investor protection.

[1] FR/11/2025 Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk

Management

[2] Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds

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What does IOSCO recommend in relation to the design process?

Respuesta
The report sets out foundational expectations for how responsible entities, including fund managers and other operators of CISs, should approach the design and ongoing structuring of their LRM frameworks. The starting point is a demand for a **robust, context-appropriate LRM process**, compliant with local regulatory obligations. Crucially, the design of this process should be proportional to the CIS exposure to liquidity risks. Accordingly, the risk management framework should factor in the granularity of asset liquidity, the fund's portfolio composition, and its ability to meet all liabilities, including investor redemptions and obligations such as derivative margin calls.

Responsible entities are expected to set **internal liquidity thresholds** commensurate with both redemption obligations and other potential sources of liquidity demand. These thresholds should not only comply with regulatory minima but should act as an early-warning mechanism, guiding managers to undertake deeper analyses and implement corrective action if the liquidity position becomes strained.

For OEFs the **link between portfolio liquidity and redemption frequencies** is essential. The framework introduces a classification system reflecting the liquidity of a fund's holdings, assigning each CIS to one of three categories: (i) mainly liquid, (ii) mainly less liquid, and (iii) significantly illiquid. This classification then outlines the most appropriate redemption arrangements and anti-dilution tools, aligning the redemption profile to what the asset base can reasonably support. For example, portfolios comprised mainly by illiquid assets may warrant less frequent redemptions or longer notice and settlement periods to safeguard all investors, especially in times of stress.

Investor protection and market stability are further reinforced by the requirement to consider how **distribution channels** and the investor base may impact liquidity. Understanding the composition and behaviors of investors is vital for anticipating liquidity needs and planning accordingly. Where intermediaries obscure investor identities, responsible entities are urged to proactively seek relevant data to ensure their risk management assessments remain accurate. Finally, the design recommendations highlight the importance of **accessing timely, relevant, and reliable information**, not only about underlying investments but across the broader architecture of the CIS. This encompasses transparency across all levels of the investment structure, especially when funds invest in other funds, so that upstream liquidity risks and potential gating structures are fully understood.

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What is suggested regarding management tools and operational practices?

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The report highlights that responsible entities should carefully **consider and implement a broad spectrum of LMTs and measures**. These tools are designed to function effectively under both normal and stress market conditions and need to align with applicable local laws and regulations. The recommendations delineate two main categories of LMTs:

- **Anti-dilution tools**, which ensure that the costs and impacts of investor subscriptions and redemptions, including any significant market impact of asset sales to meet those redemptions, are fairly borne by the transacting investors, thereby mitigating material investor dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.
- **Quantity-based tools**, which provide discretion to limit or slow redemption outflows during periods

of liquidity stress.

Anti-dilution tools, such as swing pricing[3] and dual pricing[4], are encouraged for an increased use especially in funds with less liquid assets, while quantity-based tools—including suspensions, redemption gates, and extended notice or settlement periods—serve as essential safeguards that should be applied judiciously and not relied upon exclusively.

Additionally, consideration is given to other liquidity management measures such as side pockets[5] , in-kind redemptions[6], and soft closures[7], emphasizing that the selection and use of these tools be aligned with fund-specific characteristics and investor profiles.

Regarding **day-to-day liquidity management**, responsible entities are required to perform **regular, rigorous assessments** of the liquidity profile of assets held within their portfolios, applying both quantitative and qualitative methods to capture factors such as market depth, time to liquidation, valuation certainty, and potential price impacts, under both normal and stress environments. Furthermore, **liquidity considerations should be integrated proactively into investment decisions**, ensuring that new exposures or strategies do not undermine CIS's ability to meet its liabilities and redemption obligations. Effective LRM extends to early detection of emerging vulnerabilities, meaning processes should be calibrated to **identify potential liquidity shortages in advance**—before they crystallize.

Good liquidity management relies on **comprehensive use of internal and external data**: fund flows, investor profiles, redemption patterns, ongoing liabilities, and operational limits. Maintaining a thorough understanding of the investor base—ideally by seeking data from intermediaries and monitoring large holders—helps managers anticipate and plan for periods of heightened redemption or outflows, guaranteeing fair and consistent treatment of all investors, particularly under stress. Likewise, responsible entities need to ensure appropriate, timely communication with investors and authorities when activating or adjusting LMTs or other extraordinary measures.

The importance of **stress testing** is underscored by IOSCO recommending ongoing liquidity assessments that simulate a range of stress scenarios to evaluate the resilience of a CIS's liquidity profile and its capacity to meet liabilities under adverse market conditions. Stress testing should be tailored to the size, complexity, and strategy of the CIS, reflecting realistic redemption levels and incorporating considerations such as the liquidation time of assets, counterparty behaviors, and interconnectedness with other funds or market participants. The insights gained from stress testing are instrumental throughout a CIS's life cycle, from the design phase through to ongoing portfolio management, facilitating informed calibration of liquidity buffers, investment limits, and contingency plans.

[3] Refers to a process for adjusting a fund's net asset value, NAV, (typically calculated at mid-price) by applying a swing factor that reflects the liquidity cost stemming from net subscriptions or redemptions. All investors pay or receive the same swung price.

[4] Refers to the calculation of two NAVs per valuation point. One way of implementing dual pricing is to calculate one NAV which incorporates assets' ask prices and the other NAV which incorporates assets' bid prices. Subscribing investors pay the NAV calculated using ask asset prices while redeeming investors receive the NAV calculated using bid asset prices. Another method for implementing dual pricing is to set an 'adjustable spread' around the fund's NAV under which assets are priced on a mid-market basis, with a bid price at which the fund redeems shares and an offer price at which the fund issues new shares. The difference between these two prices is known as the spread as estimated by the responsible entity, which could be dynamic to reflect the liquidity costs under prevailing market conditions.

[5] Refers to a mechanism by which a fund manager segregates specific assets (e.g., assets with valuation issues or legal uncertainty) from the fund's overall portfolio. Investors then receive shares or units of the new holding on a pro rata-basis of their holdings in the existing fund. As such, the manager, through unit segregation can better manage the unique liquidity or valuation of the different underlying assets. The advantage is that the fund holding the "unaffected" assets remains open to subscriptions and redemptions, while the "uncertain" assets in the side pocket can be dealt with separately.

[6] Sometimes referred to as in specie redemptions, this mechanism allows OEFs to distribute the underlying assets, generally on a

pro-rata basis to investors, as opposed to paying cash to satisfy redemptions. They aim to avoid the sale of a sizable block of securities by the fund to execute a cash redemption, thereby avoiding significant transactions costs and market price impacts which may disadvantage remaining investors. In-kind redemptions may also allow the fund manager to deploy a greater portion of the portfolio into investments and hold less cash in reserve to fund potential redemptions, thereby better matching the underlying investments and liquidity needs of the OEFs.

[7] Refers to a mechanism by which OEFs can cease active marketing of the fund, temporarily close subscriptions or permanently close subscriptions, subject to local law and regulation. The goal is to prevent larger size subscriptions e.g. in assets with limited liquidity and/or capacity. This may be implemented after a pre-determined commercialization period, if applicable.

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Which are the recommendations on governance and transparency?

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The governance recommendations stress that responsible entities should embed **adequate and appropriately tailored governance arrangements** across all aspects of LRM. The aim is to ensure that liquidity decisions, particularly those involving the deployment of LMTs or other extraordinary measures, are guided by well-defined, objective criteria, transparent processes, and clear roles and responsibilities at all organizational levels under both normal and stressed conditions. Effective governance relies on frequent, both ex-ante and ex-post, reviews of LRM and the performance of LMTs, **supported by comprehensive recordkeeping** and appropriate escalation channels in case of unexpected stress or liquidity shortfalls. The governance structure should incorporate independent oversight, facilitate periodic testing and updates of **contingency plans**, and ensure that skills and information relevant to liquidity management are actively maintained within management and oversight committees. The degree and complexity of governance should be proportionate to the size, complexity, and risk profile of the CIS, reflecting the diversity of fund structures across jurisdictions.

As for disclosures, the report highlights that **transparent communication with investors, prospective investors and regulators** underpins confidence and facilitates informed decision-making. Responsible entities should provide clear, proportionate, and ongoing disclosures about the liquidity risks inherent to their CISs, the processes and frameworks in place to manage such risks, and the specific LMTs and measures available, including the conditions under which such tools might be deployed.

Regarding the **specifics of LMTs**, the recommendations stress that investors must understand the existence, objectives, and broad operational principles of both anti-dilution and quantity-based tools without needing access to potentially sensitive calibration details that could risk front-running or destabilizing the product. On the one hand, ex-ante disclosures should enable investors to appreciate the scenarios in which LMTs may be used. On the other hand, ex-post disclosures (typically in summary form) help investors understand the fund’s practice and history regarding these tools, without revealing operational details that could be exploited to circumvent LRM.

Reporting to authorities should ensure regulators can assess the adequacy and effectiveness of liquidity management frameworks and ensure that any material changes or the use of LMTs outside ordinary circumstances are communicated promptly.

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Links of interest:

FR/10/2025 Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes

FR/11/2025 Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management

FSB Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds – Financial Stability Board