

RESPONSE TO CONSULTATION PAPER

Consultation Topic	MAS Consultation Paper on Updates to the Guidelines on Liquidity Risk Management Practices (Fund Management Companies)
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CFA Society Response to MAS Consultation Paper on Updates to the Guidelines on Liquidity Risk Management Practices (Fund Management Companies)

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Question 1. On the proposal to ensure consistency between CIS' liquidity and the redemption terms: (a) Do the scenario-based examples effectively facilitate implementation? (b) What other common scenarios should be included as guidance?

We are broadly supportive of the proposal to mandate alignment between fund asset liquidity and redemption frequency. This requirement will strengthen investor protection and improve market transparency. However, we offer the following observations and recommendations.

The two scenarios presented (Scenario A: highly liquid securities with daily redemption; Scenario B: primarily illiquid instruments with less frequent redemptions) provide useful bookend examples and effectively communicate the principle that redemption frequency should reflect asset liquidity. However, we believe they represent an overly simplified dichotomy that does not capture the full spectrum of real-world fund structures

(a) Effectiveness of current scenarios

Areas for enhancement:

1. Principle-based guidance

While the principle-based approach allows for proportionate implementation across different FMC sizes and fund types, we recommend that MAS provide greater clarity on key interpretation thresholds, in particular:

- The definition of “significant proportion” for illiquid assets – the current threshold of approximately 50% is a useful bright line, but intermediate cases (e.g., 40–50% illiquid assets) would benefit from explicit guidance.
- The concept of “reasonable timeframe” for asset conversion under normal and stressed market conditions, with suggested calibration metrics such as indicative days to liquidate benchmarks by asset class.

2. Transition and competitive considerations

FMCs managing funds with existing daily redemption terms and mixed portfolios may face implementation challenges. A sharp change to less frequent redemption terms could:

- Signal heightened risk to investors, potentially triggering redemption waves.
- Create competitive disadvantages versus peers who maintain daily redemptions without similar regulatory signals.
- Require significant changes to fund documentation and investor communication.

We recommend that MAS provide guidance on appropriate transition periods for FMCs to adjust redemption terms, potentially allowing 12–24 months to implement changes while setting clear interim liquidity management requirements.

(b) Additional scenarios for guidance

We recommend that MAS expand the guideline examples to include the following common fund structures:

1. Barbell portfolios

Many liquid focused strategies intentionally combine core highly liquid holdings with smaller allocations to opportunistic or specialist illiquid positions. Current guidance does not adequately address how FMCs should classify and manage redemption terms for such funds. We suggest:

- Clarification on whether the 50% threshold applies to the entire portfolio or specific sleeves or tranches.
- Guidance on stress testing redemption scenarios where both liquid and illiquid positions experience simultaneous liquidity stress.
- Discussion of how to communicate dual risk profiles (liquid vs. illiquid components) to investors.

2. Private credit and alternative asset funds

With the growth of private credit and private markets allocations, FMCs increasingly manage open ended vehicles investing primarily in less liquid instruments. These funds would benefit from explicit examples addressing:

- Appropriate redemption frequency (e.g., quarterly vs. semi-annual) as well as redemption notice period for private credit exposures.
- Suitable combinations of lock up periods, notice periods and settlement timelines for such strategies.
- Interim liquidity arrangements or tools for handling large, unexpected redemptions.

3. Master feeder and fund of funds structures

These structures present unique liquidity cascades:

- Liquidity constraints at the underlying master or sub fund level should inform feeder fund redemption terms.
- Guidance would be helpful on managing timing mismatches between feeder redemptions and master fund dealing cycles and settlement.
- Stress scenarios where underlying funds apply gates or suspend redemptions will affect feeder level liquidity and should be explicitly addressed.

4. Hybrid and multi strategy funds

For funds combining multiple asset classes with different liquidity profiles, we recommend guidance on:

- Portfolio composition thresholds that should trigger more conservative redemption terms.
- Dynamic approaches to adjusting redemption frequency or notice periods as portfolio composition evolves.

We recommend that MAS could include 3 - 4 additional illustrative scenarios in the final guidelines to reduce ambiguity and encourage consistent industry implementation, accompanied by commentary on practical implementation and transition approaches

Question 2. MAS seeks views on the key areas that an FMC would need to disclose to investors on the liquidity of the CIS.

Meaningful disclosure is essential for investors to make informed decisions about whether a fund's liquidity risk profile aligns with their own needs and constraints. We agree with the principle of enhanced disclosure and recommend that MAS consider at least the following elements for open ended CIS. This is particularly key for funds investing in illiquid assets as well as investors who are retail and vulnerable investors.

Core disclosure elements (offering documents)**1. Investment strategy and liquidity risk profile**

- A clear description of the fund's investment strategy and how it aligns with the stated redemption frequency.
- An explicit statement on the fund's exposure to liquid vs. illiquid assets, including indicative percentage ranges.
- Identification of asset classes expected to face liquidity challenges under both normal and stressed market conditions.
- Discussion of how geopolitical or market specific factors (e.g., emerging market focus, sector concentration, small cap bias) may affect portfolio liquidity.

2. Redemption terms and lock up conditions

- Clear specification of redemption frequency (daily, weekly, monthly, etc.).
- Any applicable lock up periods, minimum holding periods, notice periods and settlement periods.
- Operational details on how redemption requests are processed (cut off times, dealing days, settlement standards).
- Where available, high level historical information on redemption patterns (e.g., largest single day or single investor redemption as a percentage of AUM).

3. Liquidity management tools and activation criteria

- A comprehensive overview of liquidity management tools available to the fund (e.g., swing pricing, anti-dilution levies, dual pricing, redemption gates, suspensions).
- For each tool:
 - Objectives – why the tool exists and what investor protection or fairness goal it serves.
 - Activation triggers – the specific market conditions, redemption thresholds or fund metrics that may cause the tool to activate.
 - Illustrative examples – hypothetical scenarios where tools might be used (e.g., "swing pricing could apply if net daily redemptions exceed x% of NAV").
 - Impact on investors – how the tool affects pricing, timing of redemptions and investor rights.

4. Liquidity cost methodology (where applicable)

For funds that impose explicit or implicit liquidity costs (e.g., via swing pricing, anti-dilution levies or dual pricing), disclosures should include:

- A clear explanation, at a non-technical level, of how costs are calculated and their typical magnitude.
- A description of the methodology for estimating bid ask spreads and market impact costs.
- The frequency with which the methodology is reviewed and recalibrated.
- A simple numerical example showing the impact of liquidity costs on a hypothetical subscription or redemption.

5. Risk factors specific to fund liquidity

- Discussion of how historical stress events (such as the Global Financial Crisis or COVID 19 market dislocation) could affect the fund's liquidity.
- Identification of potential constraints that may impede immediate redemptions (e.g., market closures, settlement delays, counterparty failures).
- Key concentration risks (e.g., large holdings in a few issuers, sector concentrations, or significant investor concentration) that may impair liquidity under stress.

6. Valuation and pricing practices

- Explanation of valuation methodologies and frequency for illiquid or less frequently priced assets.
- Any circumstances under which NAV may be adjusted for liquidity or stressed market conditions.

Operational considerations

1. Plain language and accessibility

MAS could encourage a tiered disclosure structure, for example:

- A concise, investor friendly summary of key liquidity features for retail investors.
- Detailed technical disclosures in the full prospectus or offering memorandum.
- Visual aids (tables or charts) to illustrate redemption terms and potential activation of liquidity tools.

2. Pre investment confirmation

For funds with non-standard liquidity features (e.g., annual redemptions, long lock ups, or significant notice periods), we recommend requiring explicit investor acknowledgement that they understand these constraints before investing. This could be implemented via a brief questionnaire or electronic acknowledgment.

3. Ongoing disclosure

Beyond offering documents, FMCs could:

- Provide regular factsheets (e.g., quarterly) outlining key liquidity metrics and recent redemption activity.
- Disclose in annual reports whether liquidity management tools were activated during the reporting period, and, in general terms, why.
- Give prior notice (where practicable) of any material changes to redemption terms or the suite of liquidity management tools.

We recommend MAS could consider issuing a standard liquidity disclosure template or minimum content checklist to promote consistency and reduce uncertainty about what constitutes “adequate disclosure”.

Question 3. Apart from those situations highlighted in the LRM Guidelines, are there any specific scenarios where ADTs would be inappropriate or ineffective? Please provide specific examples and set out the reasons why ADTs are not appropriate or effective.

We support the requirement for FMCs managing open ended CIS, particularly those investing in less liquid assets, to implement at least one anti-dilution tool (ADT). ADTs promote fairness by ensuring that redeeming investors bear the liquidity costs they generate, rather than passing those costs to remaining investors. ADT redemption fees should be paid back to the fund to be fair to existing investors. Nonetheless, we identify several scenarios where ADTs may be ineffective or impractical.

1. Extreme market stress and price distortions

In periods of systemic stress (e.g., the 2008 Global Financial Crisis or the March 2020 COVID 19 dislocation), markets can experience severe volatility, sharp spread widening, evaporating depth and substantial valuation uncertainty.

Why ADTs may be ineffective in such conditions:

- Swing pricing relies on reasonably stable and representative market data; during extreme stress, bid ask spreads may reflect distressed or disorderly trading rather than fundamental values.
- NAV determination for illiquid assets becomes challenging, undermining the robustness of swing adjustments.
- Operationally, recalibrating swing factors or other ADTs intraday in highly volatile conditions may be difficult.
- Very large swing factors may be perceived as punitive, exacerbating investor anxiety and precipitating further redemptions.

Under such conditions, more blunt quantitative tools such as temporary suspensions or redemption gates may be more appropriate as a last resort, while the FMC reassesses market conditions and portfolio liquidity.

We suggest MAS explicitly acknowledge that ADTs may need to be supplemented or temporarily replaced by quantitative tools in extreme market dislocations where reliable pricing inputs are unavailable.

2. Contractual or structural limitations on ADTs

Certain fund structures or mandates may restrict the use of specific ADTs. Examples include:

- Sharia compliant funds, where dual pricing or certain fee structures could raise religious or mandate related concerns.
- Master feeder structures, where the feeder cannot practically operate swing pricing if the master fund does not support it.
- Legacy funds without existing provisions for swing pricing, dual pricing or levies in their constitutive documents, where amendments would be operationally or legally complex.

In such situations, the FMC may not be able to implement all ADTs even if it recognises their conceptual benefits. Alternative approaches, such as longer notice periods, conservative liquidity buffers and earlier use of quantitative tools, may be more suitable.

We recommend MAS clarify that while FMCs should implement at least one appropriate ADT wherever feasible, it recognises that contractual, regulatory or structural constraints may limit the availability of particular tools. In such cases, FMCs should document their rationale and use alternative combinations of preventive and quantitative tools proportionate to the fund's risk profile.

3. Extreme redemption scenarios exceeding ADT capacity

Where a single investor or group seeks to redeem a very large proportion of a fund (e.g., 40–60% of AUM) on short notice, ADTs may not fully mitigate the impact.

Reasons include:

- Even sizeable swing factors may be insufficient to offset the liquidity costs and market impact of liquidating such a large portion of the portfolio.
- Forced sales, particularly in less liquid markets, may cause price dislocations far beyond modelled costs.
- The time needed to liquidate positions in an orderly manner may exceed investors' expectations for redemption proceeds, creating a timing mismatch.

In such cases, redemption gating – limiting redemptions to a set percentage of AUM per dealing period – is likely to be more effective in protecting remaining investors and facilitating orderly asset sales.

We suggest MAS clarify that while ADTs are preferred as a first line of defence in many situations, quantitative tools such as gating or suspension may be more appropriate when redemption requests exceed specified material thresholds.

4. Small FMCs with limited operational capabilities

Smaller or boutique FMCs may lack the infrastructure, data and specialist expertise required to implement sophisticated ADTs (e.g., dynamic swing pricing models that incorporate market impact estimates).

Potential issues include:

- Elevated model risk due to limited internal quantitative resources.
- Operational risks from complex daily or intraday calculations.
- Challenges in establishing independent model validation and risk oversight.
- Disproportionate cost of system and data investments relative to fund size.
- Technical implementation of implicit Costs for certain over-the-counter (OTC) or thinly traded assets, finding "more than one pricing source" for bid-ask spreads may be impossible.

For such FMCs, simpler ADTs – such as flat subscription/redemption fees, longer notice periods, or straightforward tiered levies based on redemption levels – may be more appropriate and proportionate.

We recommend MAS explicitly emphasise proportionality in the implementation of ADTs, acknowledging that smaller FMCs may use simpler tools provided they can demonstrate that these adequately address their funds' liquidity risks.

We request a "safe harbour" or more flexible "best-efforts" guidance for specific asset classes where data is notoriously opaque.

5. Extremely volatile or uncorrelated asset classes

In asset classes such as emerging market debt, high yield credit or certain commodities, reliable estimation of implicit costs (such as market impact) can be especially challenging due to limited data, frequent regime shifts and nonlinear liquidity dynamics.

In these cases, heavy reliance on complex ADT models may be less effective than a conservative combination of:

- Wider notice periods and longer settlement timelines;
- Flat anti-dilution levies calibrated to average historical costs;
- Earlier use of redemption gates under stress conditions.

We suggest MAS provide asset class sensitive guidance, acknowledging that simpler, more conservative approaches may be warranted where data and modelling limitations are material.

Question 4. MAS seeks views on the current approach(es) for imposing liquidity costs on transacting investors, including implicit costs. Please comment on the methodology and practical implementation considerations, if any.

We support the principle that investors whose transactions drive liquidity usage should bear the associated costs, in order to prevent cross subsidisation by remaining investors. At the same time, we recognise that implementing implicit cost methodologies presents practical challenges, particularly for smaller FMCs and for funds investing in illiquid assets.

1. Explicit transaction costs

Explicit transaction costs (including brokerage, settlement fees, trading levies and similar charges) are comparatively straightforward to identify, measure and pass through.

We recommend that MAS clarify that:

- Explicit costs used in liquidity adjustments should be based on actual transaction costs incurred for the relevant dealing period, or, where necessary, on transparent, market observable fee schedules.
- FMCs should maintain adequate records and supporting documentation for these cost allocations for audit and supervisory review.

2. Implicit transaction costs: Bid ask spreads

The guidelines envisage estimating bid ask spreads using multiple pricing sources, commercial databases or internal/third party models.

Key implementation issues include:

- Limited or unreliable direct spread observations for illiquid instruments, leading to reliance on indicative quotes or proxy instruments.
- The need for fund or strategy specific calibrations, given differences in asset mix, geography and credit quality.
- Significant variability of spreads between normal and stressed market environments.

Where scale and sophistication allow, we support the use of dynamic spread estimates that adjust for prevailing market conditions (e.g., volatility, credit spreads). For smaller FMCs, simpler, conservative spread estimates may be more appropriate, particularly where explicit costs and conservative liquidity buffers are already in place.

3. Implicit transaction costs: Market impact

Estimating market impact costs is likely the most data intensive and model dependent aspect of liquidity cost calculation.

Practical challenges include:

- Limited historical transaction data in many markets and for many strategies.
- Strong dependence of impact on trade size, urgency and contemporaneous market liquidity.
- The need for specialist quantitative expertise, robust model validation and ongoing recalibration.

Practical implementation recommendations

- Implementation timeline: allow a transitional period (e.g., 12–24 months) for FMCs to develop and refine appropriate methodologies, particularly for market impact estimation.
- Proportionality: explicitly state that proportionality applies to liquidity cost modelling expectations.
- Model governance: provide high level expectations on model governance (validation, backtesting, documentation) appropriate to the firm's size and complexity.
- Documentation and transparency: encourage FMCs to keep detailed records of methodologies, data sources, recalibration practice and backtesting results, and to explain liquidity cost practices in plain language to investors.

We also see value in MAS facilitating an industry working group or issuing supplementary technical guidance on best practices for market impact estimation across different asset classes.

Question 5. MAS seeks views on the governance requirements on the use of liquidity management tools.

1. Clear activation triggers and thresholds

The guidelines state that FMCs should set out the circumstances under which liquidity tools may be activated and define the roles and responsibilities of decision makers. We recommend that MAS expand this to require FMCs to establish explicit quantitative and qualitative triggers for the activation of liquidity tools, and examples of triggers may include:

- Quantitative triggers
 - Redemption level triggers (e.g., swing pricing activates if daily net redemptions exceed a specified percentage of AUM; gating activates beyond a higher threshold).
 - Liquidity ratio triggers (e.g., activation when the proportion of highly liquid assets falls below a defined level).
 - Market condition triggers (e.g., significant widening of credit spreads, sharp increases in volatility indices, or other recognised stress indicators).
 - Concentration related triggers (e.g., where one or a few investors hold a large share of AUM and seek to redeem a material portion).
- Qualitative triggers
 - Significant market stress events or systemic risk indicators.
 - Counterparty credit or settlement events affecting key positions or derivatives.
 - Material operational disruptions, such as market closures, settlement system failures or cyber incidents.
 - Geopolitical events with material impacts on the fund's underlying assets or markets.

These triggers should be codified in internal risk and liquidity policies and, where material, explained at a high level in offering documents so investors can understand the circumstances under which tools might be used.

2. Escalation protocols and decision-making timeframes

- We recommend that FMCs implement written escalation and decision-making frameworks that specify:
- Which roles or committees are responsible for decisions at each level of severity (e.g., portfolio management, risk management, CIO, Board or dedicated emergency committee).
- What information is required at each stage (e.g., details of trigger breaches, scenario analysis, alternative options and their impacts).
- Indicative timeframes for decisions in normal, elevated risk and crisis conditions.
- Documentation requirements for decisions, including rationale, time, participants and approvals.
- Investor and regulator notification timelines following activation of tools.

The framework should also address after hours and weekend decision making processes where rapid action may be required.

3. Side pockets as liquidity management tools – governance expectations

Given the increasing prevalence of private credit and other less liquid strategies, side pockets are likely to become an important tool in some strategies. We recommend that MAS explicitly recognise side pockets as a potential liquidity management mechanism and set out minimum governance expectations over their use.

Key elements could include:

- Side pocket creation should be tied to pre defined and objective trigger conditions, rather than ad hoc or purely discretionary decisions. Examples of such conditions include sustained market closures, inability to obtain reliable pricing from independent vendors, or demonstrated valuation uncertainty beyond a defined tolerance level.
- The potential use of side pockets, together with the methodology, rationale and governance over side pocketing, should be clearly articulated in the fund's constitutive and offering documents at inception.
- The Board should periodically review side pocketed positions and the continuing appropriateness of maintaining them in a segregated structure, without necessarily prescribing a fixed review frequency in regulation.
- There should be an expectation of regulatory reporting when side pockets are established or materially changed.
- An exit plan and expected realisation timeline should be documented for side pocketed assets, to avoid side pockets becoming open ended segregation mechanisms without structured oversight.

4. Integration of liquidity risk with other risk types

The guidelines appropriately note that liquidity risk interacts with other risks. We recommend that MAS encourage FMCs to formalise an integrated risk governance approach by, for example, maintaining a risk interaction matrix that considers:

- Liquidity–credit interactions (e.g., how credit spread widening or downgrades affect saleability and margin requirements).
- Liquidity–market interactions (e.g., volatility, correlation breakdowns, basis risk and hedge effectiveness under stress).
- Liquidity–operational interactions (e.g., settlement system issues or cyber events affecting redemption processing).
- Liquidity–reputational interactions (e.g., the impact of deploying gates or suspensions on investor confidence and future flows).

This matrix should inform both the design of tools and the conditions for activation.

5. Early warning indicators and monitoring framework

The guidelines refer to internal thresholds as early warning indicators. MAS can consider sharing good practices of such internal thresholds which can take the form of a tiered monitoring framework, for example:

- Tier 1 – Green (Normal): high liquid asset ratios, modest and stable redemption levels, normal credit spreads and no significant concentration issues.
- Tier 2 – Yellow (Elevated risk): moderate decline in liquid asset ratios, increased redemptions, noticeable spread widening or growing investor concentration.
- Tier 3 – Orange (High risk): further declines in liquidity metrics, double digit daily redemptions, pronounced market stress indicators.
- Tier 4 – Red (Crisis): very low liquidity buffers and/or very large redemptions, alongside clear signs of systemic stress.

Each tier should be associated with pre-defined management actions (e.g., intensified monitoring, preparation or activation of specific tools, escalation to senior management and the Board, enhanced investor communications). Thresholds and actions should be reviewed at least annually and whenever there are material changes in the fund's profile or market conditions, ideally supported by backtesting.

6. Empirical benchmarking and back testing of thresholds

When FMCs establish quantitative thresholds we encourage FMCs to empirically justify and benchmark their chosen thresholds.

We suggest that FMCs be expected to backtest their proposed thresholds against historical stress episodes (such as the 2008 Global Financial Crisis and the March 2020 COVID 19 dislocation) and seek Board approval for their calibration. Back testing should, at a minimum, assess:

- Whether the proposed gate or threshold would have been triggered, and how frequently.
- Whether the chosen illiquidity reference would have correctly identified funds most vulnerable to redemption pressure.
- Whether thresholds would likely have activated too late to prevent disorderly asset sales, or too early in a way that might unnecessarily signal distress.

Requiring managers to document, retain and periodically reassess these back testing results would strengthen both governance and supervisory confidence in the chosen calibration of liquidity tools.

7. Governance documentation, Board oversight and committees

We recommend that MAS encourage FMCs to maintain comprehensive written documentation covering:

- The suite of liquidity management tools, associated triggers and thresholds.
- Escalation protocols and decision-making responsibilities.
- Back testing results, periodic reviews and rationale for any changes to thresholds or tools.
- Any structural or mandate related constraints on tool usage and how these are mitigated.

Boards should receive regular liquidity risk reports (for example, quarterly or semi-annually) and approve material changes to liquidity thresholds or tool policies, as well as any extraordinary

measures such as suspensions. Existing risk or liquidity committees should have explicit responsibility for overseeing liquidity risk and tool usage, and internal audit should periodically test adherence to established governance procedures.

Question 6. MAS seeks views on the additional guidance in relation to eligible deposits that MMFs may invest in under the CIS Code.

We support MAS's clarification that eligible deposits must be repayable on demand, or withdrawable by the MMF at any time, in order to support the liquidity resilience expected of money market funds.

However, the reference to "penalties or other costs associated with early withdrawal" would benefit from further clarification to ensure consistent interpretation and application.

We suggest that MAS consider clarifying:

- The broad categories of deposits that should typically be regarded as eligible (e.g., on demand accounts such as CASA, shorter tenor fixed deposits with contractual early withdrawal rights, plain vanilla certificates of deposit with reasonable early redemption terms), versus deposits that should generally be out of scope (e.g., long dated time deposits with no early withdrawal option, structured deposits with significant embedded optionality or performance features, or products better characterised as investment securities rather than deposits).
- High level quantitative or qualitative principles for what constitutes a "reasonable" early withdrawal penalty, calibrated such that the effective cost of early withdrawal does not negate the MMF's ability to access funds when needed to meet redemptions.
- Expectations for MMFs to perform an annual eligibility assessment of their deposit holdings, including consideration of withdrawal feasibility, penalty levels and counterparty risk, with appropriate documentation of the assessment and conclusions.
- Considerations specific to deposits with foreign institutions, including minimum standards for the regulatory regime, treatment of foreign currency risk and appropriate concentration limits across counterparties and jurisdictions.

We also see merit in MAS encouraging:

- Sensible concentration limits (for example, at the single bank and top five banks level) to avoid excessive exposure to any one institution.
- Periodic testing of operational processes related to deposit withdrawals, including under stressed conditions, to ensure that MMFs can access liquidity in a timely manner when required.

Recommendation: MAS may wish to issue supplementary guidance or illustrative examples to clarify the treatment of different deposit types and penalty structures, thereby supporting consistent application of the CIS Code and reinforcing the intended conservative, liquidity focused profile of money market funds.