CSA systemic risk report: Exploring rare occurrences

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The Systemic Risk Committee (SRC) of the Canadian Securities Administrators (CSA) allows staff to review and monitor systemic and emerging risks in the Canadian capital markets. The SRC recently released its report for the first time, identifying their views of certain trends and key vulnerabilities. Identified vulnerabilities are wide-ranging, and include high inflation and interest rates, the crypto asset market, consequences of a potential failure of any large dealers, and the private securitization market. Of particular interest to readers may be comments made with respect to private investment funds.

While it was noted that overall, fund liquidity risks were well managed and ETFs demonstrated resilience during recent financial stress, exempt funds that invest in private assets such as private debt and real estate reported liquidity mismatches, which may increase if economic conditions deteriorate. The SRC indicated that the risk from investor outflows might be greater for funds that invest in private assets and that rely on institutional investors who may withdraw large amounts quickly, although the ability to utilize tools such as longer redemption notice periods can help funds align redemptions with a fund's liquidity profile. Private equity, private debt, or real estate funds are called out as potentially needing to suspend or restrict redemptions to ensure orderly fulfillment of redemption payments. While it is noted that public funds have a relatively low liquidity risk, the risk does need to be managed appropriately, and the SRC will continue to monitor the liquidity profile of mutual funds.

The views of the SRC do not necessarily reflect the views of CSA members, and it will be interesting to follow whether any further action is taken based on some of the key vulnerabilities mentioned in the report.

By

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