

Circular to the Collective Investment Schemes, Fund Managers and Depositaries on ESMA Liquidity Stress Test Guidance

On 5 February 2019, the European Securities and Markets Authority (ESMA) has launched a public consultation on **Draft Guidance Draft Guidelines on Liquidity Stress Testing for Alternative Investment Funds (AIFs) and Undertakings for the Collective Investment in Transferable Securities (UCITS)**.

Once published, the Guidelines would apply to UCITS Management Companies and EU AIFMs (collectively referred to as “Fund Managers¹”) as well as EU Depositaries overseeing UCITS and EU AIFs.

The proposed Guidelines are set out in the Annex to the ESMA Public Consultation. Section 5 of the Annex contains the Guidelines that all in-scope Fund Managers and Depositaries should follow when undertaking or overseeing the Liquidity Stress Testing. Sections 6-13 provide explanatory considerations for Fund Managers, whereas Section 12 provides explanatory considerations for both Fund Managers and Depositaries.

The Public Consultation document is available at:
https://www.esma.europa.eu/sites/default/files/library/esma34-39-784_esma_guidelines_on_liquidity_stress_testing_in_ucits_and_aifs.pdf

The Public Consultation is open for feedback until **1 April 2019**. It is to be noted that ESMA will consider the feedback it receives to this Consultation in early Q2 2019 and expects to publish a final report by mid-2019.

Further information

The said Draft Guidelines aim at promoting convergence among EU National Competent Authorities which in terms of supervision of liquidity stress testing across Collective Investment

¹ For the purpose of this Circular – the Self-Managed Collective Investment Schemes shall be treated as Fund Managers

Schemes. The ESMA Public Consultation sets out 14 principle-based criteria for liquidity stress testing to be followed by Fund Managers when undertaking liquidity stress tests. It is important to note that the resilience for different types of market risks, including for liquidity risk², should be regularly tested.

Draft Guidelines require the liquidity stress tests to:

- be tailored towards the individual Collective Investment Scheme (CIS);
- reflect the risks which are most applicable to a CIS;
- be sufficiently extreme or unfavourable and yet plausible;
- sufficiently model how a Fund Manager is likely to act in times of stressed market conditions; and
- be embedded into the CIS's overall risk management framework.

ESMA is seeking stakeholders' views on the Guidance which Fund Managers should follow, which include:

- the design of liquidity stress testing scenarios;
- the liquidity stress test policy, including internal use of liquidity stress test results;
- considerations for the asset and liability sides of CIS's balance sheets; and
- the timing and frequency for individual CIS to conduct the liquidity stress tests.

Contact

Any queries regarding this Circular shall be sent to the Securities and Market Supervision, MFSA at: funds@mfsa.com.mt



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² Liquidity Risk - the risk that assets cannot be sold quickly enough to meet investors' redemption requests.