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Liquidity Stress Testing in UCITS and AIFs

Of particular interest to: AIFMs, UCITS Management Companies and the portfolio managers of such funds

In brief

ESMA has published its Final Report on “Guidelines on liquidity stress testing in UCITS and AIFs” which will apply from 30 September 2020. These Guidelines build upon the **existing** liquidity risk management requirements set out in the AIFMD and UCITS frameworks (and, where relevant, when such funds fall under the Money Market Funds Regulation).

Summary

The Guidelines on liquidity stress testing (**LST**) arise from an ESMA consultation in February 2019 following a recommendation by the European Systemic Risk Board for ESMA to “develop guidance on the practice to be followed by managers for the stress testing of liquidity risk for individual AIFs and UCITS”.

These Guidelines do not introduce new requirements for managers but are rather to promote **supervisory convergence** of existing requirements - AIFMs are already required to manage (and stress test) liquidity risk under Article 16(1) of the AIFMD supplemented by Articles 47 & 48 of the AIFMD Level 2 Regulation, with a similar obligation for UCITS Management Companies under Article 40(3) of the UCITS Level 2 Directive (reflected in the FCA Handbook in FUND 3.6 and COLL 6.12.11 respectively).

For the avoidance of doubt, the liquidity management obligations arising under the AIFMD (Article 16(1)) apply to all **full-scope AIFs** regardless of structure, but do **not apply to unleveraged closed-ended AIFs**. In addition to the Guidelines applying to ‘AIFs and UCITS’ the ‘Scope’ also mentions that it includes:

- ETFs, whether they operate as UCITS or AIFs
- Leveraged closed-ended AIFs
- Money Market Funds (as limited by paragraph 6 of the ‘Scope’)

There are **16 guidelines** (page 33 onwards) applicable to managers (there are separate ones for depositaries) which include, but are not limited to:

- LST models
- The understanding of liquidity risks
- The need for an LST Policy
- Frequency of LST (at least annually but quarterly – or more frequently - is recommended)
- LST scenarios

The intention is that the Guidelines will apply from **30 September 2020**.

Useful Links

[ESMA Final Report: Liquidity Stress Testing](#)

[AIFMD Level 2 Regulation \(231/2013\)](#)

[UCITS Level 2 Directive \(2010/43\)](#)

[Money Market Funds Regulation \(2017/1131\)](#)

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Our mailing address is:

Terminal House, 1st Floor, 52 Grosvenor Gardens, Belgravia, London SW1W 0AU