



3 February 2020

ESMA launches common supervisory action with NCAs on UCITS liquidity risk management

Introduction

As readers will be aware from recent client briefings, liquidity management within funds has become a key regulatory focus both at a European and a domestic level.

At a European level, a new framework for liquidity stress-testing, set down in the [ESMA Guidelines on Liquidity Stress Testing](#), will apply to all UCITS management companies and AIFMs from 30 September 2020 onwards. This sets out common parameters to be complied with when designing and conducting liquidity stress testing and is intended to supplement the existing legislative requirements under the UCITS and AIFMD frameworks to conduct liquidity stress testing. On the domestic front, the Central Bank wrote to all fund management companies in August of last year reminding firms of their obligations to ensure compliance with applicable legislative and regulatory obligations relating to liquidity management and has increased its monitoring of liquidity of investment funds.

ESMA has now launched a common supervisory action with national competent authorities on UCITS liquidity risk management.

Common Supervisory Action

In its 2020 work programme released in September 2019, ESMA identified liquidity management in UCITS as a specific area of focus for 2020 and announced that it would facilitate a common supervisory action on the supervision of how UCITS management companies manage liquidity risk.

The common supervisory action, [launched by ESMA last week](#), involves all EU national competent authorities simultaneously assessing whether UCITS management companies in their jurisdictions comply with the rules relating to liquidity management on a day -to-day basis using the same methodology.

What does this common supervisory action comprise of?

The first stage of the common supervisory action will involve the Central Bank of Ireland and all other EU competent authorities requesting quantitative data (presumably in the form of a survey) from UCITS management companies which they regulate on their liquidity management processes.

The second step will see the Central Bank and all other EU competent authorities focusing on a smaller sample of UCITS and their management companies to carry out a more in-depth analysis of the manner in which liquidity risk is managed.

Will all UCITS management companies be required to provide quantitative data to the Central Bank?

ESMA notes that “a large majority” of UCITS managers will be required to provide information to their competent authority on their liquidity risk management practices. Those who are required to provide this information are advised to allocate adequate time and resources to ensure that the information provided accurately reflects the liquidity risk management procedures in place by the relevant deadline as the Central Bank may use the responses provided by UCITS managers as a means of identifying those who will be subject to a more in-depth analysis of their liquidity risk management frameworks later in the year.

If you have any questions relating to ESMA’s common supervisory action, please contact your usual contact in the Dillon Eustace Asset Management and Investment Funds Team.

Dillon Eustace
February 2020

Cillian Bredin
E: Cillian.Bredin@dilloneustace.ie
DD: + 353 (0)1 673 1889

Áine McCarthy
E: Aine.McCarthy@dilloneustace.ie
DD:+ 353 (0)1 673 1861

www.dilloneustace.com