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## ESMA Publishes Guidelines on Liquidity Stress Testing in UCITS and AIFs (“the Guidelines”)

On 2 September 2019, the European Securities and Markets Authority (“ESMA”) published the Guidelines on liquidity stress testing (hereunder referred to as “LST”) applicable to Undertakings for Collective Investment in Transferable Securities (“UCITS”) and Alternative Investment Funds (“AIFs”). The Guidelines are supplementary to the existing requirements on LST emanating from the AIFMD (including Article 16 of the AIFMD and Article 48 of the AIFMD Level 2 Regulation) and the UCITS Directive (including Article 51 of the UCITS Directive and Article 40 of the UCITS Level 2 Directive) and aim towards adopting a consistent approach on the methodology and frequency of LST already being undertaken as well as to foster supervisory convergence.

The Guidelines provide direction on the LST process and applicable tests to be undertaken on AIFs and UCITS, on a number of different aspects, including:

- the design of LST Models;
- governance principles for LST;
- LST policy and documentation;
- frequency of LST;
- the usage of LST outcomes;
- adaptation of LST to different types of funds;
- LST scenarios employed;
- factors impacting liquidity risk and LST both from an asset and liability perspective; and
- other considerations such as data availability, product development and aggregation of LST results.

The Guidelines, which are applicable with effect from 30 September 2020, may be accessed through this [link](#).

The applicable rulebooks will be updated in due course so as to make appropriate reference to the Guidelines. In the interim, the MFSA expects that AIFMs, UCITS Managers, self-managed AIFs, self-managed UCITS and other relevant stakeholders familiarise themselves, actively prepare and start implementing the Guidelines on a best efforts basis until the effective date of implementation stipulated above. The current applicable requirements on risk management, including liquidity management as stipulated in the AIFMD and UCITS Directives, will continue to remain in force as hitherto.

It is pertinent to note that the Authority has rolled out a thematic review focusing on liquidity risk management (including LST) and is currently in the process of undertaking a number of on-site inspections focusing on this area. Liquidity management will remain high in our list of supervisory priorities and the level of supervisory engagement in this area will increase, going forward.

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