MFSA MALTA FINANCIAL SERVICES AUTHORITY

Media Release

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Stress Testing of Funds Show They Would Largely Cope

Maltese retail investment funds would generally cope well under stressed market conditions, according to a study carried out by the Malta Financial Services Authority (MFSA).

This study served as a follow up of the first liquidity stress testing exercise carried out by the MFSA in 2020.

Although the 2020 liquidity stress test was based on data that preceded the COVID-19 crisis, overall, it provided a good indication of the redemption magnitudes that funds would be expected to face during such stressed market conditions.

The Authority refined the methodology used, based on its 2020 experience, and found that the liquidity risk in the Maltese retail investment fund industry remained contained, with most of the funds capable of withstanding theoretical 'extreme redemption' requests. The sample reviewed within the study consisted of 64 retail investment funds licensed in Malta, covering a total net asset value (NAV) of €2.67 billion or 88% of the total NAV of the Maltese retail funds as at end 2020.

The study showed that more retail funds would need to liquidate part of their investment portfolio in the case of an extreme scenario compared to the results obtained in the stress testing exercise carried out in 2020. This was potentially due to investment funds retaining a lower cash buffer. The reduced level of liquid assets may have been triggered by a number of investment opportunities which materialised in the financial markets during the second half of the year as a consequence of the stimulus packages issued by governments and central banks in response to the COVID-19 pandemic.

Notwithstanding the heightened use of liquidity for investment purposes, the study showed that an improvement in the liquidity risk can be generally detected, and retail investment funds domiciled in Malta should be in a position to continue to weather liquidity strains brought about by external factors such as the COVID-19 pandemic.

On the international front, liquidity risk in investment funds has been central in the agenda of regulators for the last few years. Moreover, the issue was recently accentuated due to the economic shock brought about by the pandemic which, among other things, necessitated the need for central bank intervention and support in certain countries. Such an action was not required in Malta, with retail investment funds being generally resilient to the adverse conditions brought about by the pandemic, as confirmed by the study conducted by the MFSA.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Vision 2021, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.

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