

ESMA PUBLISHES ANNUAL PEER REVIEW OF EU CCP SUPERVISION

Overall, the review found that NCAs' supervisory activities on CCPs' liquidity stress testing are satisfactory. However, the peer review showed that the assessment of some areas of liquidity stress testing was not always performed or being evidenced sufficiently. In particular, NCAs should make sure that the settlement of obligations of defaulting clearing members are reflected in full in the liquidity stress testing framework.

The report also identifies several best practices and considerations to further enhance supervisory convergence with respect to CCPs' liquidity stress testing.

On the functioning of CCP colleges, the review of colleges' activities during the reporting period remains overall positive.

Next steps

ESMA will follow up on the report's findings to identify, where relevant, the most appropriate tools to further enhance supervisory convergence.

Background

The peer reviews under EMIR assess the overall functioning of CCP colleges and provide an in-depth analysis of supervisory activities by NCAs on CCPs in relation to EMIR's requirements. The reviews also assess if NCAs are following the relevant guidelines and opinions agreed by ESMA and identifies best practices.

The CCP Supervisory Committee is mandated to conduct, at least annually, a peer review analysis of the supervisory activities of all NCAs in relation to the authorisation and the supervision of CCPs in accordance with Article 30 of Regulation (EU) No 1095/2010 (ESMA Regulation).

Taxonomy-related product disclosures. Public event on the European Supervisory Authorities consultation

During this public event, the European Supervisory Authorities will present their proposals and open a dialogue with stakeholders on draft Regulatory Technical Standards (RTS) on the content and presentation of product

disclosures (covered by the Taxonomy Regulation) imposing additional rules for the subset of financial products that make sustainable investments with environmental objectives under the Sustainable Finance Disclosure Regulation (SFDR). The ESAs have proposed RTS that would amend their 4 February 2021 general RTS under SFDR in a [consultation paper](#). The consultation paper contains proposals on how and to what extent activities funded by the product are taxonomy-aligned.

The public hearing will be of interest to stakeholders affected by the additional taxonomy-related product disclosures, in particular financial market participants, their representative associations, environmental associations, investor representatives or consumer bodies, and consultants or academics and representatives from the EU and national institutions. The public hearing is to be held in the afternoon of 29 April and will be organised as an on-line webinar.

Registration

The ESAs invite interested stakeholders to register by 26 April using the form below. Participants will be able to join the webinar on-line or by dialling in. Due to technical limitations of the on-line webinar environment, there are limited number of places available. Places will be allocated on a first come first serve basis. Please note that participation will be limited to two participants per organisation to ensure diversity in the participation.

The agenda for the hearing will be released closer to the date of the hearing and will cover the scope, approach and content of the consultation paper.

[ESMA makes recommendations for Organised Trading Facilities under MiFID II/MiFIR](#)

The main focus of the report was to analyse the definition of OTFs taking a specific look at the definition of a multilateral system and the trading venue perimeter. The report also looks at the number of OTFs authorised in the Union and their market share, examines how OTFs apply discretion and reviews their use of matched principal trading (MPT).

While some proposals can be implemented by ESMA directly by publishing ESMA guidance, other recommendations are addressed to the European Commission (EC). In this context, ESMA puts forward a two-step approach aiming at clarifying the trading venue perimeter. More specifically, ESMA proposes to the EC to move Article 1(7) from MiFID II to MiFIR and that ESMA publishes an Opinion clarifying the boundaries of trading venue's authorisation,

In addition, the report also includes a recommendation to the EC to add a definition of bulletin boards to MiFID II and to align the provisions regarding the prohibition of the use of MPT amongst Multilateral Trading Facilities (MTFs) and regulated markets.

Next steps

This report was submitted to the European Commission and is expected to be taken into consideration for further legislative proposals on the MiFID II regime.

ESMA report highlights liquidity concerns for Alternative Investment Funds

The main risks faced by the sector relate to a mismatch between the potential liquidity of the assets, and the redemption timeframe offered to investors. This is particularly the case for real estate funds and funds of funds. For hedge funds, the issue of leverage is key at more than 900%, in a sector valued at EUR 354bn in net asset value (NAV), including EUR 269bn for hedge funds with UK AIFMs.

The AIF sector was heavily impacted by the COVID-19 related market stress during the first quarter of 2020, and while outside the reporting period, a snapshot of the main event is included in the report.

Main findings:

- **The size of the EU AIF universe** continued to expand to reach EUR 6.8tn in NAV at the end of 2019, a 15% increase from 5.9trn in 2018. The growth of the EU AIF market results from the launch of new AIFs in 2019 and positive valuation effects;
- **Funds of Funds (FoFs)** account for 15% of the NAV of EU AIFs, at around EUR 1tn (+22% compared with EUR 841bn in 2018). At the very short end, investors can redeem 39% of the NAV within one day, whereas only 29% of assets could be liquidated within this time frame. If large redemptions were to occur, AIFs would face challenges due to this liquidity mismatch;
- **Real Estate Funds** account for 12% of the NAV of AIFs, at EUR 802bn. They continued to grow, albeit at a more moderate pace (+9% in 2019 after +35% in 2018). Compared with 2018, the proportion of retail investors was stable (21%) but remains high compared with other AIF categories. RE funds are exposed mostly to illiquid physical assets which take time to sell, so liquidity risk in RE funds remains a concern;
- **The size of the EU Hedge Fund** sector remained stable in 2019 at EUR

354bn, or 5% of all AIFs. However, when measured by gross exposures, HFs account for 62% of AIFs since they rely heavily on derivatives. Leverage is very high at more than 900% after adjustments, and particularly so for some strategies highly reliant on derivatives;

- **Private Equity Funds** account for 7% of the NAV of all AIFs, or EUR 456bn, and experienced the largest growth in 2019 (+28% compared with +66% in 2018). They follow a range of strategies and are almost exclusively sold to professional investors;
- **Other AIFs** account for 60% of the NAV of EU AIFs, at around EUR 4tn (+15% compared with +6% in 2018). The category covers a range of strategies, with fixed income and equity strategies accounting for 68% of the NAV and an additional residual category amounting to 29%. Other AIFs are mainly sold to professional investors, although there is a significant retail investor presence; and
- EU Member States can allow **non-EU asset managers** to market alternative funds at national level under the National Private Placement Regime (NPPR), even though such funds cannot subsequently be passported in to other Members States. The market for such non-EU funds is comparatively large: The NAV of non-EU AIFs marketed under NPPRs' rules amounts to EUR 2.1tn, i.e. more than one-fifth of the AIF market. NPPR fund marketing is concentrated in a small number of Member States, and 98% of investors are professional investors.

ESMA will continue to report annually on its analysis.

[ESMA publishes Final Report on SME Growth Markets](#)

The SME GMs regime in the EU, as it stands, has been relatively successful, with seventeen multilateral trading facilities (MTFs) registering as SME GMs to date. However, acknowledging that SMEs need further incentives to access capital markets, the report suggests targeted amendments to the SME GM regime in the MiFID II framework, aimed at simplifying investors' access to information and promoting concentration of liquidity on SME GMs.

Among the proposed measures the Final Report includes recommendations to help promote the concentration of liquidity on SME GMs, to improve standardisation and access to information for investors and suggestions on how to develop homogeneous admission requirements.

ESMA is aware of the wider ongoing discussion to make capital markets more efficient for SMEs in the context of the Capital Market Union and fully supports the initiative. It is ready to contribute to this wider discussion with technical input if and where needed.

Next Steps

The report was submitted to the European Commission and is expected to be taken into consideration for further legislative proposals on the MiFID II SME GM regime.