# [ESMA STRENGTHENS LIQUIDITY STRESS TESTS FOR INVESTMENT FUNDS]

ESMA’s guidelines require fund managers to stress test the assets and liabilities of the funds they manage. This includes redemption requests by investors which are the most common and important source of liquidity risk and could also impact financial stability. Managers of AIFs and UCITS must be aware of the liquidity risk of the funds they manage and use stress testing as a tool to mitigate this risk. EU-based funds need to regularly test the resilience of their funds to different types of market risks, including for liquidity risk.

**Guidelines will foster supervisory convergence**

Fund managers will need to apply a comprehensive set of guidelines when designing the scenarios, policies and frequency of liquidity stress tests for the funds they manage. The Guidelines also recommend managers to notify National Competent Authorities (NCAs) of material risks and actions taken to address them. One Guideline also applies to depositaries, requiring verification that the fund manager has in place documented procedures for its liquidity stress testing programme.

The common requirements will allow convergence in the way NCAs supervise liquidity stress testing across the EU.

The ESMA Guidelines follow recommendations by the European Systemic Risk Board (ESRB) published in April 2018 on how to address liquidity and leverage risk in investment funds. The ESRB mandate asked for the principles to be based on the stress testing requirements set out in the Alternative Investment Fund Directive (AIFMD) and on how market participants carry out stress testing.

**Next steps**

The Guidelines will become applicable on 30 September 2020. The requirements set out in the Guidelines are supplementary to the requirements on liquidity stress testing which are enshrined in the AIFMD and UCITS Directives and are already applicable.