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**AMIC and EFAMA update their report on Managing Fund Liquidity Risk in Europe**

In 2019, AMIC and EFAMA decided to update their 2016 report “Managing Fund Liquidity Risk in Europe” following important policy and regulatory developments at EU and international levels. The purpose of this updated report is to outline the practical liquidity risk management processes which fund management companies put in place when setting up a fund and implement throughout the life of the fund. Also, the report describes the existing European and international regulatory frameworks in the area of fund liquidity risk management.

The updated report shows that since 2016, the EU regulatory framework has been further enhanced following the adoption of new rules and standards in particular the EU Regulation on Money Market Funds (2017), IOSCO’s Recommendations on Liquidity Risk Management for Collective Investment Schemes (2018), and ESMA’s Guidelines on Liquidity Stress Testing (LST) in UCITS, AIFs and MMFs (2019).

In light of recent idiosyncratic events, this AMIC/EFAMA report update is an opportunity to highlight that the UCITS regulatory framework clearly states that there should be no presumption of liquidity for listed securities and that it allows national competent authorities to oversee where hitherto unlisted securities held by a UCITS fund may be listed.

The report also describes how this new comprehensive framework has been tested under various market conditions and scenarios in a number of recent publications, which show that, overall, most AIFs and UCITS do not have significant liquidity mismatches and that a one-size-fits-all approach must therefore be avoided.

Finally, the report articulates four recommendations:

1. **Focus on supervision and enforcement of the current comprehensive EU rules**: after several years dedicated to the development of new rules, the focus should now be on ensuring the effectiveness of the new framework via proper supervision and full enforcement of the rules, to the benefit of investor protection and financial stability. In this context, we support ESMA’s intention to ensure an effective and consistent implementation of existing liquidity provisions contained in the UCITS Directive.

2. **Make all IOSCO-suggested Liquidity Management Tools (LMT) available across the EU**: despite progress being made since 2016, the full suite of LMT is not yet fully available across the EU. We therefore encourage ESMA to work with national authorities to make LMT available to fund managers across all jurisdictions, and in this context, we also welcome the upcoming assessment by IOSCO of local implementations of its liquidity risk management recommendations for investment funds.
3. **Improve transparency and managers’ knowledge of end-investors, to enhance LST and ease the management of potential redemption shocks:** for fund managers, cost free access to data from distributors on underlying investors (investor profiles and shares/units) would be a great improvement for conducting LST, as required by ESMA Guidelines adopted in September 2019.

4. **Enhance market liquidity for corporate bonds and small & mid-cap stocks:** this involves reactivating the critical function of market-making. Regarding corporate bonds, we call on the European Commission to follow up on the policy recommendations of its expert group on corporate bonds and, in particular, to repeal or at least phase in the implementation of the mandatory buy-in regime under CSDR, which could significantly hinder market liquidity as shown by a recent study released by ICMA.

EFAMA’s Director General, Tanguy van de Werve, commented “Addressing public concerns around liquidity mismatches, investor protection and financial stability starts with the consistent implementation and proper enforcement of the existing EU and international rules. We fully support ESMA’s fact-based approach to the issue and welcome its intention to ensure an effective and consistent implementation of existing liquidity provisions foreseen in UCITS and AIFMD.”

ICMA’s Chief Executive, Martin Scheck, said: “This stock-taking exercise is here to remind fund managers of their own duties but also provides an overview on what has been accomplished by regulators at EU and international levels over the last decade. This report is also intended to be valuable in the context of IOSCO’s 2020 assessment of local implementations of its liquidity risk management recommendations for investment funds, which we support.”

Download Managing fund liquidity risk in Europe - Recent regulatory enhancements & proposals for further improvements

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**European Fund and Asset Management Association (EFAMA)**
EFAMA, the voice of the European investment management industry, represents 28 member associations and 59 corporate members. At end 2018, total net assets of European investment funds reached EUR 15.2 trillion. These assets were managed by close to 33,400 UCITS (Undertakings for Collective Investments in Transferable Securities) and 28,600 AIFs (Alternative Investment Funds).


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**International Capital Market Association (ICMA)**
ICMA is a not-for-profit membership association, headquartered in Switzerland, that serves the needs of its wide range of member firms in global capital markets. As at January 2020 it has more than 580 members in 62 countries. Among its members are private and public sector issuers, banks and securities houses, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others. The International Capital Market Association’s (ICMA) Asset Management and Investors Council (AMIC) was established in March 2008 to represent the buy-side members of the ICMA membership. More information available at: www.icmagroup.org

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