Response from the ESRB to the ESMA Consultation Paper   
on Guidelines on reporting obligations under Article 3   
and Article 24 of the AIFMD

**Introduction**

The European Systemic Risk Board (ESRB) welcomes the publication by the European Securities and Markets Authority (ESMA) of the Guidelines on reporting obligations under article 3 and Article 24 of the Alternative Fund Managers Directive (AIFMD). In fact, the ESRB believes that the information obtained in this framework, both individual and aggregated, will be an important tool not only to perform the tasks assigned by Article 25 of AIFMD, but also to assess the different sources of systemic risk that may originate from Alternative Investment Funds (AIFs) and in particular from hedge funds, as a relevant component of the “shadow banking” system. Such risks may include, among others, excessive leverage, concentration, liquidity and interconnectness.

**General comments**

While agreeing with the proposal, the ESRB would like to make the following general comments:

1. Data collected in this reporting framework will help to detect systemic risk only if a sufficient quality is assured. Therefore, it is necessary to have in place processes to ensure quality of the information received, which is a resource-intensive activity where know-how is very important. This calls for cooperation, involving both national and European authorities. Therefore, the ESRB believes that responsibilities about checks, both deterministic and non-deterministic, including pattern checks, need to be defined more clearly.
2. Timeliness is also an important component of data quality. This implies that a calendar for the remittance of data, which is an important aspect of any reporting framework, needs to be defined. The coming ITS on supervisory reporting by the EBA may be used as a benchmark for these purposes.
3. As a relevant number of hedge funds have a “master-feeder” structure, it is important to collect also data on underlying assets and liabilities of such funds. The approach proposed in these guidelines is a possible way; an alternative, which may have some advantages, could be to require feeder funds to “look through” their master funds and report directly the underlying assets and liabilities.
4. Collecting data also on extra-EU funds marketed in the EU, this reporting will fill an important gap. However, in order to assess the importance of each AIF category for the European market, it would be very important to have also a breakdown between EU and non-EU investors. Another information that could be useful to collect may be data on sector of companies controlled by private-equity funds, in order to have an idea of the importance of such AIFs for each economic sector.
5. In order to perform a comprehensive analysis of interconnections, universally used identifiers are necessary. Therefore, the ESRB hopes the Legal Entity Identifier (LEI) to be rapidly implemented, so that it could be made mandatory in this reporting. In case LEI is not available when the Guidelines enter into force, the ESMA should use any pre-LEI code endorsed by the LEI Regulatory Oversight Committee.

**Replies to ESMA specific questions**

The ESRB replies to the 12 questions raised in the ESMA consultation paper are provided in the table below.

The ESRB does not object to ESMA publishing the ESRB to the ESMA Consultation Paper on Guidelines on reporting obligations under Article 3 and Article 24 of the AIFMD.

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| **Questions** | **Replies** |
| Q1: Do you agree with the proposed approach for the reporting periods? If not, please state the reasons for your answer. | The ESRB agrees with the proposed approach, both for the reason mentioned in the paper and because it makes data comparable with ESCB statistics. |
| Q2: Do you agree that ESMA should provide clarification on how AIFMs should manage change in reporting frequency? Do you agree with the scenario identified by ESMA and the guidelines provided? If not, please state the reasons for your answer. | The ESRB agrees with the guidelines. |
| Q3: Do you think that ESMA should provide further clarification? If yes, please provide examples | No. |
| Q4: Do you agree with the proposed approach for the reporting obligations for feeder AIFs and umbrella AIFs? If not, please state the reasons for your answer. | The ESRB agrees with the proposed approach. In any case, the ESRB deems essential to collect data on underlying assets and liabilities of master-feeder funds (see also general comments). |
| Q5: Do you agree with the approach proposed by ESMA? If not, please state the reasons for your answer? Do you think ESMA should provide further clarification? If yes, please give examples | The ESRB agrees with the proposed approach. In particular, the ESRB considers important to collect ISIN codes of AIFs’ units, which will allow cross-checks with ESCB statistics. |
| Q6: Do you agree with the proposed approach for the principal markets and instruments in which AIFMs are trading on behalf of the AIFs they manage? If not, what would you propose as alternative approach to the identification of principal markets and instruments? | The ESRB agrees about instruments, while for markets it believes that a ranking by turnover would be more significant. However, if for simplicity it is deemed preferable to use the same criteria for both, the ESRB would prefer to use turnover. |
| Q7: Do you agree that AIFMs should report information on high frequency trading? If not, please state the reasons for your answer. If yes, do you agree that this information should be expressed as a percentage of the NAV of the AIF? If not, please state the reasons for your answer and identify more meaningful information that could be reported. | The ESRB agrees on collecting data on high frequency trading, as it may be an important source of systemic risk. Further work will then be necessary in order to develop a more comprehensive set of indicators which can help supervisors and regulators to understand better this complex phenomenon. |
| Q8: Do you think that the list of investment strategies should be widened? If yes, please provide ESMA with suggestions of additional investment strategies | No |
| Q9: Do you agree that AIFMs should also calculate the geographical focus based on the total value of the assets of the AIF? | Yes, because for a highly leveraged fund the definition of “geographical focus” of NAV may be ambiguous or, in any case, not so significant. |
| Q10: Do you agree that information on the turnover should also be expressed in number of transactions? If not, please state the reasons for your answer. | Yes, as both measures may be significant, according to the fund’s strategy. |
| Q11: Do you agree with the proposed list of types of transactions and the respective definitions? If not, please state the reason for your answer. Can you think of any other type of transactions that ESMA should add to the list? | The ESRB agrees with the proposed list, also considering that it is not exhaustive. |
| Q12: Do you agree with the introduction of additional measures of market risks? If not, please state the reason for your answer. If yes, do you believe that ESMA should further clarify how these measures should be computed? | The ESRB believes that additional measures of market risk, particularly VaR, would be helpful, provided that they are clearly defined. The ESRB also believes that some more clarification would help. In any case it should be recognised that some risk measures such as Value-at-Risk Data computed at the last business day of the reporting period might display a blurred picture of the risk situation. Either an average calculation of the risk measure over the reporting period and/or the information of maximum risk within the reporting period would be more suitable for an appropriate risk assessment. |