European Securities and Markets Authority

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# PUBLIC STATEMENT

## ESMA supports ESRB actions to address COVID-related systemic vulnerabilities

1. Today, the European Systemic Risk Board (ESRB) addressed a Recommendation to the European Securities and Markets Authority (ESMA) as part of a set of actions to address the COVID-19 emergency from a macroprudential perspective.

2. The pandemic, in combination with high volatility and inherent valuation issues that it has triggered, has led to large market corrections and a deterioration of liquidity risks, which in turn has prompted stress in different parts of the financial system, including in some segments of the investment fund sector. While the financial system has broadly been able to cope with this stress thus far, in part due to the actions of central banks and regulators around the world, it is prudent to assess the preparedness of the investment fund sector to further liquidity stress episodes.

3. Against this background, ESMA expresses its support to the ESRB Recommendation, which suggests that relevant NCAs across Europe, coordinated by ESMA, undertake focused supervisory engagement with investment funds that have significant exposures to corporate debt and real estate, which are less liquid asset categories. In this context, ESMA also welcomes the ESRB public communication on the importance of the timely and effective use of liquidity management tools by investment funds with exposures to less liquid assets.

4. The ESRB action complements the ongoing ESMA coordination role in this area. In response to the COVID-19 pandemic, ESMA has intensified the exchange of information among NCAs on the use of liquidity management tools by EU/EEA UCITS and AIFs. Previously, ESMA had launched, on 30 January 2020, a Common Supervisory Action (CSA)[1] on UCITS liquidity risk management. NCAs agreed to assess simultaneously how market participants in their jurisdictions adhere to the UCITS liquidity rules in their day-to-day business. This is being done on the basis of a common methodology. In the context of

[1] ESMA launches a Common Supervisory Action with NCAs on UCITS liquidity risk management, https://www.esma.europa.eu/press-news/esma-news/esma-launches-common-supervisory-action-ncas-ucits-liquidity-risk-management

the CSA work, NCAs share on an ongoing basis knowledge and experiences at the level of ESMA to ensure supervisory convergence in the way they supervise UCITS liquidity risk management.

5. ESMA also shares the concern expressed by the ESRB regarding the potential impact of procyclical downgrades of corporate bonds on markets and entities across the financial system. While the impact of the pandemic situation on issuers remains to be assessed, a deterioration in credit quality needs to be carefully reflected in the ratings, on the basis of high quality data. The proposed top-down analysis coordinated by the ESRB with the European Supervisory Agencies (EBA, EIOPA and ESMA – ESAs) and the European Central Bank will help assessing the impact of large-scale downgrades across all parts of the financial sector.

6. ESMA, together with the other ESAs and the NCAs, monitors developments in financial markets and is prepared to use its powers to ensure the orderly functioning of EU markets so that they benefit investors and support stability.