

PRESS RELEASE

ESMA consults on guidance to address leverage risk in the AIF sector

The European Securities and Markets Authority (ESMA), the EU securities regulator, has today launched a public consultation on its draft guidance to address leverage risks in the Alternative Investment Fund (AIF) sector. The consultation is part of the ESMA response to the recommendations of the European Systemic Risk Board (ESRB) in April 2018 to address liquidity and leverage risk in investment funds¹.

ESMA's draft guidelines aim to promote supervisory convergence in the way National Competent Authorities (NCAs) assess how the use of leverage within the AIF sector contributes to the build-up of systemic risk in the financial system, as well as how they design, calibrate and implement leverage limits.

Steven Maijor, Chair, said:

“In situations when financial markets are under severe stress, highly leveraged alternative investment funds can further amplify systemic risk. Considering the size of the investment fund sector, achieving supervisory convergence in NCAs' approaches to monitoring and regulating the use of leverage by alternative investment funds is of the utmost importance

“Our proposed Guidelines address the assessment of leverage-related systemic risk and aim at ensuring that NCAs adopt a consistent approach when assessing whether the condition for imposing leverage-related measures are met.”

Next steps

ESMA is seeking stakeholders' feedback on the proposed principles to set leverage limits under Article 25 of Directive 2011/61/EU. It will consider the feedback it receives to this consultation by 1 September 2020 with a view to finalising the guidelines for publication.

¹ https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation180214_ESRB_2017_6.en.pdf

Notes for editors

1. [ESMA34-39-967 Consultation Paper – ESMA Guidelines on Article 25 of the AIFMD](#)
2. 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 ESMA to produce guidance on Article 25 of Directive 2011/61/EU, which provides for NCAs to identify the extent to which the use of leverage in the AIF sector contributes to the build-up of systemic risk in the financial system, risks of disorderly markets or risks to the long-term growth of the economy.
3. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

4. assessing risks to investors, markets and financial stability;
5. completing a single rulebook for EU financial markets;
6. promoting supervisory convergence; and
7. directly supervising specific financial entities.
8. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

Further information:

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