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| 1 February 2019 |

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| Response form for the Consultation Paper on the Guidelines on liquidity stress testing in UCITS and AIFs |
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| Date: 1 February 2019 |

Responding to this paper

ESMA invites comments on all matters in this paper and in particular on the specific questions in Annex I. Comments are most helpful if they:

- respond to the question stated;

- indicate the specific question to which the comment relates;

- contain a clear rationale; and

- describe any alternatives ESMA should consider.

ESMA will consider all comments received by 1 April 2019.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

* Insert your responses to the questions in the Consultation Paper in the present response form.
* Please do not remove tags of the type <ESMA\_QUESTION\_LST\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
* If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
* When you have drafted your response, name your response form according to the following convention: ESMA\_LST\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_LST\_ABCD\_RESPONSEFORM.
* Upload the form containing your responses, in Word format, to ESMA’s website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading “Your input – Open consultations”).

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading [Legal Notice](http://www.esma.europa.eu/legal-notice).

Who should read this paper?

The main stakeholders to whom these guidelines would apply are managers of UCITS and EU AIFMs as well as EU depositaries overseeing UCITS and EU AIFs. The paper will also be of interest to trade associations, investors and consumer groups relating to UCITS and EU AIFs.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | Invesco |
| Activity | Investment Services |
| Are you representing an association? |  |
| Country/Region | Europe |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_LST\_1>

Invesco welcomes the opportunity to provide its feedback on the consultation by ESMA on guidelines on liquidity stress-testing in UCITS and AIFs. Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. We are privileged to manage more than $930 billion in assets on behalf of clients worldwide (as of January 31, 2019). We have specialized investment teams managing investments across a comprehensive range of asset classes, investment styles and geographies and employ over 7,000 employees focused on client needs across the globe, with an on-the-ground presence in 25 countries.

We welcome the principles-based approach proposed by ESMA which recognises the heterogeneity of the fund industry and therefore, the need for liquidity stress tests to be tailored to the fund and reflect the way the manager is likely to act in times of stress to provide a meaningful view of the risks and how they can be managed.

As set out in the consultation, these guidelines form part of a broader agenda considering the potential vulnerabilities posed by the fund sector, which has been subject to significant debate over the past years, with a particular focus on liquidity risks and use of leverage. The European regulatory framework continues to be one of the most advance in terms of managing liquidity and leverage risks and has proven robust throughout numerous stressed market episodes. That said, we recognise that, as market liquidity dynamics evolve, it is important to make sure that the tools at our disposal to manage liquidity risks continue to keep pace with changes in the market to ensure that we can continue to effectively manage liquidity risks in the best interests of our clients.

We fully support the view that liquidity stress-testing should be embedded in a fund’s risk management framework. Liquidity stress-testing forms one part of an overarching risk management framework to manage risks in the fund. In addition to liquidity risks, the risk management framework will, in particular, consider market risk, leverage and counterparty risk. Liquidity stress-testing also needs to be seen in the context of the tools available to manage liquidity risks, such as swing pricing, gating and suspensions. The aim of the stress test should be not only to assess how a fund will react to a liquidity shock, either on the asset or liability side, but also to consider what contingency measures should be activated in case such shocks materialise. While the nature of any shock may vary, and the response of the manager will need to take this into account, having options in place and having tested that such options can be operationalised quickly will ensure that managers are equipped to deal with shocks and can respond to shocks efficiently.

While we generally agree with the proposed guidelines, there are a small number of areas where the guidelines go beyond the principles-based approach that ESMA aims to achieve:

1. **Use of reverse stress-testing**: we believe that reverse stress-testing is mainly relevant to a small number of strategies, such as real estate funds where the number of scenarios that would cause a suspension are limited. Therefore, we do not believe that they should be included in the guidelines but could be referred to in the explanatory notes as an additional tool that may be relevant in certain circumstances
2. **Hard-to-model parameters**: the explanatory notes refer to two specific examples of hard to model parameters, second order effects and price uncertainty. We believe that such issues would be better addressed through market stress-testing rather than through liquidity stress tests.
3. **Aggregation of stress test**: similar to reverse stress-testing, we believe that such a tool will only be relevant in a limited number of cases and therefore should not be included in the guidelines themselves but only in the explanatory notes.

While outside of the direct scope of this consultation, we believe that there are many areas where ESMA could significantly assist the asset management sector in better managing liquidity risks and would like to highlight them here for ESMA’s consideration.

1. **Visibility of the investor base**: Guideline 7 includes a requirement to consider assumptions regarding investor behaviour on redemptions. We agree that the client segment as well as the distribution channel, for example whether the investor is execution-only or advised, will impact their likely behaviour. However, given the nature of the distribution system in Europe, asset managers can experience challenges in accessing such data in a standardised and automated way. We believe that ESMA could play a key role in developing a mechanism to ensure that distributors provide asset managers with aggregate data on the type of client that invests in the fund in a standardised and automated way. For example, this could be built in to the feedback mechanism under the target market framework of MiFID II.
2. **Availability of data**: Guidelines 9 requires managers to consider data limitations and avoid unjustifiably optimistic assumptions. ESMA also recognises that accessing data relevant to liquidity of many assets can be difficult. We believe that ESMA could play a key role in filling some of the data gaps to help managers refine their liquidity risk management tools. For example, there is evidence that asset managers may be overestimating the liquidity available to them in the market due to lack of data and there could be a role for ESMA in aggregating this type of data and making it available to market participants to fine-tune their assumptions and models.
3. **Use of repo by UCITS**: As set out in the consultation paper, liquidity risks on the liability side will not only materialise due to redemptions but also as a consequence of other liabilities such as margin calls where the fund has entered into derivatives transactions. However, existing ESMA rules currently restrict UCITS from engaging in repurchase transactions for the purposes of engaging in collateral transformation to meet margin calls given that proceeds from a repurchase agreement are deemed to be collateral and therefore subject to restriction on how it can be used. Since the introduction of EMIR, there has been a significant increase in the need for collateral and removing this restriction on UCITS using repo to meet margin calls would reduce the need for funds to sell less liquid assets quickly in order to meet margin calls.

<ESMA\_COMMENT\_LST\_1>

1. : What additional costs and benefits would compliance with the proposed Guidelines bring to the stakeholder(s) you represent? Please provide quantitative figures, where available.

<ESMA\_QUESTION\_LST\_1>

The main costs will stem from any additional requirements that go beyond current regulatory requirements and market practice, for example the inclusion of reverse stress-testing, aggregation of stress tests and consideration of second-order effects. Should these elements be removed from the final guidelines, we would agree that the costs for managers will be limited.

<ESMA\_QUESTION\_LST\_1>

1. : Do you agree with the scope of these Guidelines? Should certain types of funds be explicitly excluded from these Guidelines? Should MMFs remain in-scope of these Guidelines?

<ESMA\_QUESTION\_LST\_2>

We agree with the scope of the guidelines and we do not think that certain funds should be excluded. With regard to MMFs, we welcome the recognition that there may be instances where these guidelines and the MMFR guidelines may conflict (for example resulting in duplication of reporting) and that, in such instances, the provisions exclusively applying to MMFs should prevail.

<ESMA\_QUESTION\_LST\_2>

1. : Is additional clarity required regarding the scope of these Guidelines? Is additional clarity required regarding the meaning of ‘nature, scale and complexity’ of a fund? Are there circumstances in which it would, in your view, be inappropriate for a UCITS to undertake LST?

<ESMA\_QUESTION\_LST\_3>

We fully agree with the proposed scope and we do not think that specific additional clarity is required. We welcome the inclusion of the principle of proportionality and, while we believe that the meaning is sufficiently clear, it may be helpful to elaborate further on how such a principle would be applied in practice. For example, it may be helpful to set out that, while all UCITS and AIFs in scope should conduct stress tests, they would be able to apply the proportionality principle with regards to the frequency and level of granularity of the tests as set out in Guideline 7.

<ESMA\_QUESTION\_LST\_3>

1. : What are your views on when the Guidelines should become applicable? How much time would managers require to operationalise the requirements of these Guidelines?

<ESMA\_QUESTION\_LST\_4>

As stated in response to question1, some of the proposed elements in the guidelines (reverse stress-testing, aggregation, second-order effects) will be operationally complex to implement and therefore our view would be that the Guidelines should only become fully applicable at least 12 months after publication.

<ESMA\_QUESTION\_LST\_4>

1. : Do you agree with the proposed approach of setting out a list of Guidelines all funds should follow, and the provision of explanatory considerations to help managers comply with those overarching Guidelines? Do you see merit in including some of the explanatory considerations in the final Guidelines?

<ESMA\_QUESTION\_LST\_5>

We agree with the proposed approach and we do not see the need to explicitly include the explanatory considerations in the final Guidelines.

<ESMA\_QUESTION\_LST\_5>

1. : Do you agree with the proposed Guidelines? What amendments, if any, should ESMA make to its proposed Guidelines?

<ESMA\_QUESTION\_LST\_6>

In principle, we agree with the spirit of the guidelines, subject to additional observations in the following questions. One element that in our opinion should not be included in the guidelines is reverse stress-testing, as per our answer to question 8 below.

We also question the inclusion of Guideline 14 with regards to undertaking aggregate LSTs.

We would like to highlight once area where we would recommend a change in the guidelines. On page 27 (paragraph 16), we do not think that the language in relation to “specific to the fund” could be interpreted as having at least one customized scenario for each fund, which could create a significant burden for asset managers to devise such targeted scenarios where they may have a range of funds following similar strategies.

<ESMA\_QUESTION\_LST\_6>

1. : Do you agree with the proposed explanatory considerations regarding LST of fund assets?

<ESMA\_QUESTION\_LST\_7>

We generally agree with the proposed explanatory considerations, except in relation to reverse stress-testing as set out below.

<ESMA\_QUESTION\_LST\_7>

1. : What are your views on the requirement to undertake reverse stress testing, and the use of this tool?

<ESMA\_QUESTION\_LST\_8>

We do not think that reverse stress-testing is a tool that should explicitly appear as a requirement in the guidelines, given that it does necessitate a substantial amount of effort to be put in place and the marginal benefits are uncertain at best, especially if a proper framework of historical and hypothetical scenarios has been put in place. In particular, the outcomes listed on page 33 of the ESMA CP can be achieved also without using reverse stress-testing. We believe that reverse stress-testing can be useful in some instances, for example real estate funds where the scenarios leading to a suspension of redemptions are limited in number, and so could be mentioned in the explanatory notes accompanying the guidelines.

<ESMA\_QUESTION\_LST\_8>

1. : Do you see merit in providing further considerations for managers on the use of data relevant to asset liquidity, particularly in circumstances when data is scarce?

<ESMA\_QUESTION\_LST\_9>

No further considerations are needed, but focus should be put on the fact that data may be limited and/or costly and these limitations and costs are even more severe for funds investing in less liquid assets (like real estate or private equity). As set out in our introductory remarks, we believe that ESMA could usefully play a role in facilitating access to such data.

<ESMA\_QUESTION\_LST\_9>

1. : Do you agree with ESMA’s wording regarding the asset liquidation method used in the LST model? How would you describe the asset liquidation method used by you or the managers you represent?

<ESMA\_QUESTION\_LST\_10>

We do not agree with ESMA’s wording regarding the asset liquidation method, especially for what concern the accurate reflection of how a manager would liquidate assets during normal and stressed conditions. The asset liquidation method could vary across time, based on different specific situations, different asset classes and across managers, based on each manager’s own way of looking at his/her portfolio. Trying to accurately model these wildly different behaviors will not only provide a false sense of security (especially considering that the actual liquidation process could be extremely different compared to the model), but also result in overcomplicated reporting for liquidity stress-testing, as these methods will have to be fully customized across time and across funds. From a cost/benefit perspective, we do not think this is a valid proposition. Our suggestion would be to favor an approach where ESMA provides, in the explanatory considerations, one or two standard approaches (namely the pro-rata and waterfall ones, which are reasonably well recognized by industry participants as well as by regulators) and suggests using them together with a consideration on how things can change in case the manager vary the liquidation method used.

<ESMA\_QUESTION\_LST\_10>

1. : Do you agree with ESMA’s wording regarding ‘second round effects’? What is your current practice regarding modelling ‘second round effects’?

<ESMA\_QUESTION\_LST\_11>

We do not agree with the ESMA wording on “second round effects”. As recognized in the consultation paper itself, the concept of second round effects is itself contentious and modelling such effects would be subject to significant limitations given the considerable uncertainties regarding the behavior of other market players. We therefore do not believe that it should be included in the guidelines. Moreover, as set out on page 31 of the consultation document, one of the outcomes of the stress tests would be to identify where it would be impossible to sell assets other than at fire sale prices, which would be contrary to our fiduciary duty to our clients. Moreover, we see second round effects as being better captured in the context of market stress-testing (which is our current practice) instead of liquidity stress-testing.

<ESMA\_QUESTION\_LST\_11>

1. : What are your views on the considerations on difficult to model parameters, such as price uncertainty? What is your current practice concerning this issue?

<ESMA\_QUESTION\_LST\_12>

While we agree that price uncertainty is a factor that should be considered by a fund manager in the context of managing liquidity risk, we do not agree that it should be included in liquidity stress tests but rather would be captured by market stress-testing. In particular, we note that a recent FCA consultation has suggested that price uncertainty could be a factor in deciding whether to invoke a suspension to ensure that the NAV remains a fair representation of the value of the assets in the fund, which we would support. However, this would be dealt with as part of the overall risk management policy rather than specifically through liquidity stress-testing.

<ESMA\_QUESTION\_LST\_12>

1. : Do you agree with ESMA’s considerations on LST in funds investing in less liquid assets? What amendments should be made to the proposed wording? Do you think that ESMA should outline additional and/or specific Guidelines to be made in any other fund or asset types, such as ETFs?

<ESMA\_QUESTION\_LST\_13>

We broadly agree with ESMA’s considerations on LSTs in funds investing in less liquid assets. We would however like to underscore that we do not believe that developing an exhaustive list of inherently illiquid assets, as suggested by the ESRB, would be helpful. As stated by ESMA, liquidity of assets can vary across time, in particular in stressed market conditions, and therefore the scope of less liquid assets should be based on criteria to enable managers to determine when an asset is or has become less liquid.

With regards to the frequency, we believe that more consideration should be placed on the level of automation reached by alternative investment industry: although this is improving, this element is still a quite common constraint to the implementation of frequent tests. Also, more emphasis should be placed on the availability and standardization of data, above all if referred to certain regions/sectors/asset classes: this can materially limit the possibility to implement meaningful LST, above all in the launching phase of a new product.

We agree that fund-of-funds could be vulnerable if an underlying fund suspends redemptions. Access to more granular data about the underlying fund’s liquidity profile could help fund-of-fund undertake more in-depth stress-testing.

<ESMA\_QUESTION\_LST\_13>

1. : Do you agree with the considerations regarding LST on items on the liabilities side of a fund’s balance sheet?

<ESMA\_QUESTION\_LST\_14>

In principle, we do agree with these considerations, although the practical implementation could be challenging given the lack of standardized and granular data regarding investor type and behaviour. Also, we think that the Guidelines should explicitly mention that a proportionate approach be applied, and that analysis should be performed only when relevant.

<ESMA\_QUESTION\_LST\_14>

1. : Do you agree with the considerations specifying the LST of redemptions and other types of liabilities may need to be considered distinctly, given a fund could potentially limit redemptions but not other sources of liquidity drain?

<ESMA\_QUESTION\_LST\_15>

We do agree with these considerations, subject to the answer to the previous question.

<ESMA\_QUESTION\_LST\_15>

1. : Do you agree with the requirement to reverse stress test items on the liabilities side of the fund balance sheet?

<ESMA\_QUESTION\_LST\_16>

We do not agree on this requirement as we see very limited value in performing this exercise, given the variability of the circumstances that can have a certain outcome as result for most funds. As stated above, we believe that reverse stress-testing will only be relevant in a small number of cases and, as such, should not be included in the guidelines for all funds, but should be left as an option.

<ESMA\_QUESTION\_LST\_16>

1. : Do you agree with the requirement to incorporate investor behaviour considerations into the LST model ‘where appropriate’? Are there cases which you believe it would not be appropriate, and should these be detailed in these Guidelines?

<ESMA\_QUESTION\_LST\_17>

While from an ideal point of view incorporating investor behavior considerations is definitely a worthy requirement, we think that in practice it would be very difficult, if not impossible, to implement in the way described in the Consultation Paper. A number of information on the factors mentioned in the Consultation Paper (including Investor category, Investor origin, Investor strategy and even, to a certain extent, Investor concentration) are not always available or, when it is the case, they are available in an unstructured format, making them ill-suited for utilization in an automated model run over tens (or hundreds) of funds. In our opinion, the Consultation Paper should put more accent on the availability of data (mentioned in paragraph 45) as well as the feasibility of the entire exercise, and not only on the appropriateness of the same. As per our introductory comments, we believe that ESMA could look to introduce a system to make such information on an aggregate basis, available to asset managers. In doing so, we would suggest that as part of the investor category, the distribution channel is also considered as a client investing via an execution-only platform is likely to behave differently to an advised client.

<ESMA\_QUESTION\_LST\_17>

1. : What do you think about ESMA’s Guideline stating that managers should combine LST results on both sides of the balance sheet?

<ESMA\_QUESTION\_LST\_18>

We are not convinced that focus should be on “combining” the two sides of the equation, as we think that it makes more sense to compare them, in a similar way to what is done (for non-stressed conditions) within the AIFMD Regulatory reporting, where portfolio liquidity is compared to investor liquidity and liquidity mismatches are identified. In particular, we see the AIFMD reporting framework is helpful as it allows the liquidity profile across various time horizons to be assessed. We agree that there could be some value in the combination measures included in the Consultation Paper (with specific focus on the redemption coverage ratio), but we do not think that the Guidelines should be prescriptive in this respect. Linked to this, we do not necessarily think that the next step in this process (comparing LST results from more than one fund) add value in the way it is presented (i.e. by combining the assets and liabilities sides) as redemption dynamics could be very different for different funds. We still believe that it could potentially make sense to compare different funds based on the LST results on the asset side in certain circumstances, for example when the funds pursue similar strategies and/or are managed by the same fund manager.

<ESMA\_QUESTION\_LST\_18>

1. : What are your views on ESMA’s Guideline that aggregated LST should be undertaken where deemed appropriate by the manager?

<ESMA\_QUESTION\_LST\_19>

As stated above, we believe that this is only relevant on the asset side (not the liability side or combined LST) and will only apply where the funds are managed by the same manager and follow similar strategies.

<ESMA\_QUESTION\_LST\_19>

1. : What is your experience of performing aggregated LST and how useful are the results?

<ESMA\_QUESTION\_LST\_20>

We think that performing aggregated LST (on the assets side) across funds with the same (or very similar) strategy and managed by the same investment team can add value in some circumstances. However, we do not think it is reasonable to be over prescriptive in this area, also given that the liabilities side of the equation is much more difficult to aggregate. Also, we do not understand the addition of counterparty risk considerations, which, in our opinion, should not be part of a LST program.

In relation to our experience, aggregated LST is performed only on an ad-hoc basis and typically for funds with the same strategy and managed by the same team.

<ESMA\_QUESTION\_LST\_20>

1. : What are your views on ESMA’s considerations concerning the use of LST during a fund’s lifecycle?

<ESMA\_QUESTION\_LST\_21>

We broadly agree with ESMA’s considerations with regards to using LSTs during the fund’s lifecycle.

<ESMA\_QUESTION\_LST\_21>

1. : What is your experience of the use of LST in determining appropriate investments of a fund?

<ESMA\_QUESTION\_LST\_22>

We think that the use of LST is important in the product development phase of a new fund and that the results of the LST should be used as an input in the process. However, we do not think that the results of the LST should mechanically determine (and constrain) appropriate investments.

<ESMA\_QUESTION\_LST\_22>

1. : In your view, has ESMA omitted any key uses of LST?

<ESMA\_QUESTION\_LST\_23>

No.

<ESMA\_QUESTION\_LST\_23>

1. : Do you agree with ESMA’s Guideline that LST should be undertaken in all cases annually, but that it is recommended to undertake it at least quarterly, unless a different frequency can be justified? What is the range of frequency of LST applied on funds managed by stakeholder(s) you represent?

<ESMA\_QUESTION\_LST\_24>

We agree that the LST should be undertaken in all cases at least annually. We see value in ESMA recommending a quarterly frequency, but a certain degree of freedom should be left to the manager (i.e. it should remain a recommendation).

In relation to the stakeholders we represent, LST is currently done on a weekly basis (with the results are analyzed more in-depth on a monthly basis) for public markets and on an annual basis for private markets (mainly real estate).

We would also recommend adding as an additional factor that may justify a decreased frequency of LSTs the fact that the fund has a broadly diversified asset base and/or investor base. Diversification, both on the asset side and the investor side, will make it less likely that a significant liquidity risk arises that will impact the portfolio.

<ESMA\_QUESTION\_LST\_24>

1. : Should ESMA provide more prescriptive Guidelines on the circumstances which can justify a more/less frequent employment of LST?

<ESMA\_QUESTION\_LST\_25>

We do not think that more prescriptive Guidelines are needed.

<ESMA\_QUESTION\_LST\_25>

1. : Do you agree that LST should be employed outside its scheduled frequency (ad-hoc) where justified by an emerging/imminent risk to fund liquidity?

<ESMA\_QUESTION\_LST\_26>

We agree with this statement, but we think that it should still be a recommendation, not a requirement.

<ESMA\_QUESTION\_LST\_26>

1. : What are your views on the governance requirements regarding LST?

<ESMA\_QUESTION\_LST\_27>

We generally agree with the governance requirements regarding LST, except for two points that we think we can be described in a better way:

* In relation to ownership of the LST policy, in line with requirements of the UCITS and AIFM Directives, we would expect the function to be responsible for the performance of the LST to be the Risk Management function;
* In relation to validation and back-testing, the requirements seem quite wide-ranging and could in our opinion use some proportionality. In particular, it is not clear the extent to which back-testing would be required and, in fact, what would be the value-added of back-testing in this context.

<ESMA\_QUESTION\_LST\_27>

1. : Should more information be included in the UCITS RMP and AIF RMP?

<ESMA\_QUESTION\_LST\_28>

We think that adding a point on the description of the principles used for the LST could be strongly beneficial.

<ESMA\_QUESTION\_LST\_28>

1. : Do you have any views on how managers which delegate portfolio management can undertake robust LST, independently of the portfolio manager, particularly when the manager does not face the market?

<ESMA\_QUESTION\_LST\_29>

We think that a robust LST process should be reasonably independent of the portfolio manager in all circumstances, no matter whether the portfolio management activity is delegated to a third party or not. However, in all circumstances, portfolio managers should have a duty to collaborate to ensure that the process is based on actual market information and behaviors. In case the portfolio management activity is delegated, an adequate communication and interaction framework should be put in place to ensure that this is the case.

<ESMA\_QUESTION\_LST\_29>

1. : Do you agree with the proposed Guideline for depositaries on carrying out their duties regarding LST?

<ESMA\_QUESTION\_LST\_30>

We agree with the proposed Guideline for depositaries.

<ESMA\_QUESTION\_LST\_30>

1. : In your experience do depositaries review the UCITS RMP and AIF RMP as a matter of course?

<ESMA\_QUESTION\_LST\_31>

Depositaries regularly (typically once a year) require the UCITS RMP and the AIF RMP for review.

<ESMA\_QUESTION\_LST\_31>

1. : Do you see merit in ESMA publishing further guidance on the reporting of results of liquidity stress tests? If so, in your view how should ESMA require that results be reported?

<ESMA\_QUESTION\_LST\_32>

As stated above, we believe that the AIFMD reporting framework could be a useful basis for reporting the liquidity of a fund under a stressed scenario as it allows the comparison of the asset and liability side of the fund across various time horizons. However, we believe that liquidity stress testing must first and foremost remain a tool for managers to assess the liquidity of their portfolio and understand how the portfolio may react in certain scenarios. While we agree that the reporting framework could be enhanced so that supervisors have better visibility of the liquidity position of funds, basing the reporting framework, which will need to be standardized to a certain degree, on the results of liquidity stress tests, which will be calibrated to the funds in question, may not provide supervisors with meaningful and comparable information. Therefore, we believe that reporting of liquidity for funds should take into consideration the broader liquidity risk management framework in place.

<ESMA\_QUESTION\_LST\_32>