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| Response Form to the Consultation Paper |
| Guidelines on Article 25 of Directive 2011/61/EU |

**Responding to this paper**

ESMA invites comments on all matters in this consultation paper and in particular on the specific questions summarised 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 **01/09/2020.**

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:

1. Insert your responses to the questions in the Consultation Paper in the present response form.
2. Please do not remove tags of the type <ESMA\_QUESTION\_PFG\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
3. 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.
4. When you have drafted your response, name your response form according to the following convention: ESMA\_PFG\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_PFG\_ABCD\_RESPONSEFORM.
5. 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” 🡪 “Consultation on Position limits and position management in commodities derivatives”).

**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**

This document will be of interest to asset managers managing alternative investment funds and their trade associations.

**General information about respondent**

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| Name of the company / organisation | INREV – European Assn for Investors in Non-Listed Real Estate Vehicles |
| Activity | Insurance and Pension |
| Are you representing an association? |  |
| Country/Region | Europe |

**Introduction**

***Please make your introductory comments below, if any***

<ESMA\_COMMENT\_PFG\_1>

INREV\* is pleased to have the opportunity to make a few brief comments on the consultation paper on Guidelines on Article 25 of Directive 2011/61/EU.

INREV strongly supports the use of consistent methodology to compute leverage across Member States in order to collect data to identify potential sources of risk to financial stability and that for the purpose of calculating leverage limits, NCAs should consider the leverage measures set out in the AIFMD framework.

To help understand current use of leverage in real estate funds compared with historical levels, we have provided some additional information from INREV databases below the responses to the specific questions asked. The data tables reflect a time series of both average actual and target leverage for all real estate funds in our database, which is further broken down by open end and closed end funds, showing low leverage style (‘core’) funds (leverage ≤ 40%), medium leverage (‘value added’) funds (leverage > 40% but ≥ 60%) and high leverage (‘opportunistic’) funds (leverage > 60%). There are also data in a historical time series showing the number of funds and GAV for all real estate funds, which is also broken down into open end and closed end funds. These last charts enable insight into market share and therefore weighted actual and average permissible leverage levels in open end and closed end funds from 2007 through the first quarter of 2020.

In short, the data show that leverage overall is significantly down from the levels seen around the global financial crisis and that there is now much more headroom between the actual and allowable levels of leverage in funds, which points to much less systemic risk. The core, low leverage open end funds as well as the value added, moderate leverage funds are significantly larger and more numerous than opportunistic funds, and therefore the bulk of real estate fund investment is in lower leverage funds.

INREV has to our knowledge the largest database of this kind of fund data and we estimate that our data cover approximately 80% of all non-listed institutional real estate funds in Europe. These funds are not open to investment for retail investors.

Real Estate funds - permitted vs actual leverage by style, for all, open end and closed end funds



Real Estate funds permitted vs actual leverage by style, for all, open end and closed end funds indicating number of funds and GAV



Data provided are subset of INREV Quarterly Index and have following features:

* Institutional funds with more than 2 investors investing in European real estate.
* Only core and value added funds
* Minimum threshold to show data are at least 3 funds from 3 different investment managers
* INREV Index has a bigger exposure to core, open end funds, as a result, the breakdowns provided are represented by a larger share/size of open end funds
* All data points as of Q1 of each year

\* INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe.

INREV currently has 458 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

<ESMA\_COMMENT\_PFG\_1>

**Questions**

1. : What are your views on the frequency at which the risk assessments should be performed by NCAs?

<ESMA\_QUESTION\_PFG\_1>

We agree that requiring NCAs to perform risk assessments on a quarterly basis as proposed is frequent enough for NCAs to assess the leverage-related systemic risk.

<ESMA\_QUESTION\_PFG\_1>

1. : What are your views on the sample of funds to be included under Step 1? Do you agree in including in the risk assessment not only substantially leveraged funds but also funds not employing leverage on a substantial basis which may pose financial stability risks?

<ESMA\_QUESTION\_PFG\_2>

We agree with including funds in Step 1 that employ leverage on a substantial basis as well as non-substantially leveraged AIFs that may cause risks to financial stability, and therefore can be assessed in Step 2. However, the criteria for determining how funds that do not employ leverage on a substantial basis, but may pose financial stability risks should be clearly defined.

<ESMA\_QUESTION\_PFG\_2>

1. : Do you agree with the proposed threshold identified under Step 1? Would you set the same threshold for all AIFs, or would you be in favour of setting different thresholds based for different types of AIFs (e.g.: real estate, hedge funds, private equity etc) or sub-types of AIFs (please specify) based on a statistical analysis (e.g. percentile)? Should you prefer the latter option, please provide proposals and detailed arguments and justification supporting them.

<ESMA\_QUESTION\_PFG\_3>

Real estate funds tend to be very large due to the size of the assets held. The EUR 500 million Step 1 threshold for AIFs that employ leverage but not on a substantial basis would therefore include the vast majority of real estate funds, even though most real estate funds use very modest levels of leverage. A different threshold for real estate funds based on a statistical analysis such as a percentile or standard deviation from the mean, a higher AUM threshold or a leverage-to-value threshold would allow the NCAs to concentrate on funds that are considered to pose more potential risk.

<ESMA\_QUESTION\_PFG\_3>

1. : Would you identify other relevant transmission channels?

<ESMA\_QUESTION\_PFG\_4>

No.

<ESMA\_QUESTION\_PFG\_4>

1. : What are your views on using not only leverage indicators, but also other types of indicator such as those indicated under Table 2 of the draft Guidelines? Do you agree with the list of indicators provided?

<ESMA\_QUESTION\_PFG\_5>

We do not take a position on the use of the other indicators listed under Table 2 but agree that the risk assessment should be consistent across jurisdictions and based on a common methodology and indicators.

<ESMA\_QUESTION\_PFG\_5>

1. : What are your views on using not only AIFMD data but also other external data sources to perform the assessment? Which types of external data sources would you consider more useful for the purpose of performing the assessment under Step 2, other than those already identified in Annex of to the draft Guidelines?

<ESMA\_QUESTION\_PFG\_6>

We do not take a position on the use of other external data sources to perform the assessment under Step 2 other than those identified in the Annex.

<ESMA\_QUESTION\_PFG\_6>

1. : Which other restrictions would you consider as appropriate?

<ESMA\_QUESTION\_PFG\_7>

We agree with the point raised by the ESRB, that in order to address liquidity mismatches for open end funds, managers could implement redemption policies and reduce the frequency of redemptions offered, or impose notice periods for investors wishing to redeem from an investment fund.

<ESMA\_QUESTION\_PFG\_7>

1. : What are your views on the application of the leverage limits? Should those be applied only on the single fund or, where appropriate, limits should also be applied on group of funds? In this case, how would you identify the group of funds?

<ESMA\_QUESTION\_PFG\_8>

We do not take a position on whether, where appropriate, limits should be applied on groups of funds in addition to single funds.

<ESMA\_QUESTION\_PFG\_8>

1. : How would you assess the efficiency of leverage limits in mitigating excessive leverage?

<ESMA\_QUESTION\_PFG\_9>

The use of leverage limits could be an effective and efficient tool for mitigating excessive leverage that could cause systemic risk for the financial sector.

<ESMA\_QUESTION\_PFG\_9>