

CBI Calls for UCITS Managers to Review Liquidity Risk Management Frameworks

On 18 May 2021 the Central Bank of Ireland ("Central Bank") published an industry letter¹ (the "Letter") following the European Securities and Markets Authority ("ESMA") project to review liquidity risk management frameworks for UCITS.

The Letter closely follows ESMA's public statement² ("Public Statement") issued in March 2021 at the conclusion of its Common Supervisory Action ("CSA") on UCITS liquidity risk management.

Liquidity Risk Management CSA

On 30 January 2020, ESMA launched a CSA with national competent authorities ("NCAs").

Under the CSA NCAs undertook a two-stage assessment of compliance by UCITS managers with liquidity risk management rules. The first stage involved NCAs requesting quantitative data from a large majority of UCITS managers in their respective jurisdictions to get an overview of the supervisory risks faced. In the second stage, NCAs carried out a more in-depth supervisory analysis on a sample of UCITS managers and funds.

¹ <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/industry-letter---common-supervisory-action-on-ucits-liquidity-risk-management-19-may-2021.pdf?sfvrsn=5>

² <https://www.esma.europa.eu/press-news/esma-news/esma-assesses-compliance-ucits-liquidity-rules-and-highlights-areas-vigilance>

The Central Bank indicated that, for its part, it reviewed submissions from 273 UCITS managers covering 3051 UCITS.

The results of the assessment were shared with ESMA and were presented through the Public Statement.

Requirement to Review Frameworks

The Letter, which is addressed to all Irish authorised UCITS managers, directs them to carry out a review of their liquidity risk management practices, documentation, systems and controls.

The review should have regard to the findings set out in the Public Statement and a further list of related adverse findings contained in the Letter, as follows:

- Instances of liquidity risk management frameworks that were not clearly defined, adaptable and / or independent
- A lack of formal documented pre-investment forecasting frameworks
- A lack of formal liquidity escalation policies
- Cases where no pre-investment forecasting performed
- Over-reliance on the presumption of ongoing liquidity
- Oversight of delegates below expectations
- Shortcomings in the role of the designated person for fund risk management
- Cases of no liquidity reporting to the board of the UCITS manager
- Shortcomings in internal control framework

The Letter reflects the Central Bank's continuing focus on this area, following previous measures including its August 2019 letter³ to fund management companies where it confirmed its increased monitoring of investment fund liquidity and issued a reminder of ongoing liquidity management obligations for both UCITS and AIFs.

Review and Action Plan

The review must be completed and an action plan discussed and approved by the board of each UCITS manager by the **end of Q4 2021**.

How the Maples Group Can Help

We will be working with our clients to assess the Letter, consider its practical implications and provide support for the construction and completion of the reviews and action plans.

Further Information

If you have any questions in relation to the matters addressed in this update, please liaise with any of the below, or your usual Maples Group contact:

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³ <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/funds/industry-communications/liquidity-management-brexid-letter-august-2019.pdf?sfvrsn=4>

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