

**MEMO# 33645**

July 6, 2021

# **Luxembourg CSSF Feedback Report on ESMA CSA on Liquidity Risk Management**

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TO: ICI Global Members SUBJECTS: MiFID, EMIR, AIFMD, UCITS V RE: Luxembourg CSSF Feedback Report on ESMA CSA on Liquidity Risk Management

On June 22, 2021, the Luxembourg Commission de Surveillance du Secteur Financier (CSSF) published its feedback report[\[1\]](#) on the European Securities and Market Authorities (ESMA) recent Common Supervisory Action (CSA) on UCITS Liquidity Risk Management (LRM), which released its results in March 2021.[\[2\]](#)

## **Background**

On January 30, 2021, ESMA launched a CSA on UCITS LRM. The goal of the exercise was to conduct coordinated supervisory activities and to assess whether UCITS managers comply with their liquidity management obligations.[\[3\]](#) On March 24, 2021, ESMA published the results of the CSA in a public statement, stating that the overall level of compliance with the applicable rules on LRM was satisfactory for most UCITS managers, but that the exercise also showed shortcomings in some areas and the need for improvements in certain key areas. ESMA further stated that additional work will be performed to promote supervisory convergence and that it will consider whether the results of the CSA should lead to any follow-up policy work.

## **CSSF Observations**

The CSSF found that the overall analysis of compliance for Luxembourg-based UCITS investment fund managers (IFM) is consistent with ESMA's. The CSSF has issued a feedback report to inform the industry about its main observations in the context of its CSA supervisory work, as well as to communicate its recommendations for improvements in light of the applicable regulatory requirements.

At a high level, the CSSF feedback focused on (1) the need for an enhanced understanding by IFM of their blend of risk exposures; and (2) enhancing the engagement of senior management and the board of directors with regard to inadequate data verification controls

and insufficiently detailed LRM reporting.

**More specifically, the CSSF described observations in five areas:**

- i. Pre-Investment Forecasts and Analyses of Liquidity
  - a. Calls for IFMs to define and implement a formalized and risk-based pre-investment liquidity assessment framework.
- ii. Ongoing Alignment of Redemption Policies and Liquidity Profiles
  - a. Improved understandings of the IFMs investor base as part of their LRM processes.
  - b. Integration of liabilities beyond redemptions should be included in ongoing liquidity assessments.
  - c. Enhancement of LRM processes with respect to interlinkages between liquidity and valuation risk.
- iii. Liquidity Risk Measurement and Data Reliability
  - a. IFMs must ensure that liquidity risk measurement models are tailored and appropriate to the specific asset classes and positions.
  - b. IFMs should make sure that data verification controls must be implemented.
- iv. Governance and Control Mechanisms
  - a. LRM policy must take into account the nature, scale, and complexity of their business and of the UCITs they manage.
  - b. IFMs must conduct a documented liquidity risk assessment during the product design phase.
  - c. Liquidity risk reporting to senior management and boards must be provided on a regular basis and be sufficiently detailed.
  - d. Some escalation processes with regard to liquidity risk were found to be based on inappropriate triggers.
  - e. Lack of permanent compliance and internal audit functions reviewing LRM processes.
- v. Information to the Investors in the Key Investor Information Document (KIID)
  - a. IFM should define and implement a documented internal approach underlying the definition of what is material or not in terms of liquidity risks for supporting the disclosure in the KIID.

**Next Steps - IFM Requested to Review LRM Compliance by End of 2021**

The CSSF stated that it is currently engaging on a bilateral basis with IFM in relation to its observations and asking IFM to implement the corrective measures, as needed.

In addition, the CSSF requested all IFM to conduct, by the end of 2021, a comprehensive assessment with regard to the compliance of their LRM setups in relation to the observations of ESMA and of the CSSF and to take, if applicable, the necessary corrective measures.[\[4\]](#)

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## endnotes

[1] See Full Report:

<https://www.cssf.lu/wp-content/uploads/ESMA-CSA-on-UCITS-Liquidity-Risk-Management.pdf>.

[2] See ICI Memorandum No. 33557, dated May 27, 2021, on ESMA Statement on Liquidity Risk Management CSA and Related CBI Letter, *available at* <https://www.ici.org/memo33557>.

[3] The CSA assessment framework followed a two-stage process: (i) national competent authorities (NCAs) requested quantitative data from a large majority of the UCITS managers to obtain a macro risk perspective; and (ii) NCAs focused on a sample of UCITS managers to conduct an in-depth micro risk analysis.

[4] The CSSF also reminded IFM of the IOSCO recommendations and good practices on liquidity risk management for undertakings for collective investment as implemented in national regulation by means of CSSF Circular 19/733.

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