



FINANCIAL SERVICES

ESMA: Common Supervisory Action on Valuation of UCITS and Open-ended AIFs

by **David Naughton**

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The European Securities and Markets Authority (ESMA) has announced that it will be launching a Common Supervisory Action (CSA) with National Competent Authorities (NCAs) to be conducted throughout 2022. The CSA will assess the extent to which supervised entities have complied with the valuation provisions, including the valuation of illiquid assets, under Directive 2009/65/EC (UCITS) and Directive 2011/61/EU (AIFMD).

Background

The CSA will assist ESMA in addressing the potential systemic risks that may flow from assessments of illiquid assets which is a particularly important source of risk given the current economic climate.

This CSA follows on from two previous CSAs that ESMA conducted with NCAs within the asset management sector: a CSA on UCITS liquidity risk management and a CSA on supervision of costs and fees in UCITS.

Focus

The CSA will focus on UCITS Management Companies (UCITS ManCos) and Alternative Investment Fund Managers (AIFMs) (collectively, Managers) in respect of UCITS and open-ended AIFs that invest in illiquid assets such as: unlisted equities, unrated bonds, corporate debt, real estate, high yield bonds, emerging markets, illiquid listed equities, and bank loans.

Framework

ESMA will develop a common assessment framework for NCAs that will set out the scope, methodology, supervisory expectations, and timeline for carrying out a comprehensive supervisory action on Managers.

NCAs will share their knowledge and experience in carrying out the common assessment framework with ESMA throughout 2022 to converge supervisory actions in respect of valuation-related problems. A core objective will be to ensure that the supervision of valuation methodologies and policies and procedures of Managers is consistent and effective across NCAs and that Managers value illiquid assets fairly under normal and stressed marking conditions under the respective legislative frameworks.

Next Steps

In Ireland, we expect that the Central Bank of Ireland (CBI) will carry out the CSA and apply the common assessment framework on Managers authorised and supervised by the CBI.

If you have any questions concerning the CSA, please get in touch with your usual LK Shields contact.

About the Authors



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