

ESMA publishes final guidance to address leverage risk in the AIF sector



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The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has today published its final guidance to address leverage risks in the Alternative Investment Fund (AIF) sector.

ESMA's guidelines set out common criteria in order to promote convergence in the way National Competent Authorities (NCAs):

assess the extent to which the use of leverage within the AIF sector contributes to the build-up of systemic risk in the financial system; and

design, calibrate and implement leverage limits.

The guidelines follow the 2 steps-approach introduced by IOSCO and translate this approach into the European framework. Furthermore, the guidelines provide NCAs with a set of indicators to be considered when performing their risk assessment and a set of principles that NCAs should take into account when calibrating and imposing leverage limits.

Background

The ESMA Guidelines follow recommendations by the European Systemic Risk Board (ESRB) published in April 2018 on how to address liquidity and leverage risk in investment funds. The ESRB asked ESMA to produce guidance on Article 25 of the AIFMD (Directive 2011/61/EU), which provides for NCAs to identify the extent to which the use of leverage in the AIF sector contributes to the build-up of systemic risk in the

financial system, risks of disorderly markets or risks to the long-term growth of the economy.

Next steps

The Guidelines will now be translated into the official EU languages and subsequently published on ESMA's website. They will become applicable two months after the publication of the translations.

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