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ESMA's priorities for asset management in a changing world

There is no shortage of exogenous stress factors for the asset management sector currently, from the COVID-19 pandemic and its economic fall-out, the prolonged low-interest rate environment to the shift of money associated with the emphasis on sustainable finance. In addition, the asset management sector is facing evolving customer preferences, pressure on fees, and the growth of the passive asset management business model.

ESMA is monitoring these trends as well as the potential risks that may flow from them. As a result, one of ESMA's key priorities is liquidity risks in the asset management sector.

ESMA launched on 30 January 2020 a Common Supervisory Action (CSA) with national competent authorities (NCAs) on the supervision of UCITS managers' liquidity risk management. NCAs will assess simultaneously whether market participants in their jurisdictions adhere to the UCITS liquidity rules in their day-to-day business, on the basis of a common methodology developed together with ESMA.

The CSA should be seen in the context of ESMA's broader work on stress testing. In July 2019 ESMA published Guidelines on Money Market Funds' stress tests, followed by Guidelines on liquidity stress testing (LST) in UCITS and AIFs in September. On 5 September ESMA also published a stress simulation framework for investment funds, simulating a large redemption shock affecting investment funds and the subsequent impact of asset sales on financial market.

Regarding sustainable finance, ESMA recently issued its strategy. ESMA will promote ESG transparency by issuers and market participants to help investors to better understand the ESG impact on their investments and improve transparency on investments' contribution to a sustainable economy. ESMA will do this by:

- drafting technical standards and advice to the Commission (such as the Joint Committee technical standards under the Disclosure Regulation),
- providing guidance to market participants, building awareness, ensuring a common approach to supervisory activities on ESG,
- supervising transparency and application of relevant ESG requirements (relevant for credit rating and benchmark in the future); and
- developing risk identification of ESG factors, monitoring market developments of products with ESG characteristics and adjusting stress tests to incorporate ESG.

ESMA's renewed strategic orientation for 2020-2022 has emphasised the need to actively promote retail investor engagement in the European capital markets. Essential to these aims is ESMA's ongoing work on costs and performance of retail investment products, including the work on closet indexing and the technical work on the key information document for packaged retail and insurance-based investment products (PRIIPs).

Finally, the European Commission's process to review the AIFMD should not be forgotten. The AIFMD has formed an essential part of the European asset management sector legislation since it came into application in 2013. ESMA will ensure that lessons learned from the years of NCAs' practical experience supervising AIFMs are considered as the primary legislative framework is under review. ●