

ESMA consults on guidance to address leverage risk in the AIF sector

ESMA's draft guidelines aim to promote supervisory convergence in the way National Competent Authorities (NCAs) assess how the use of leverage within the AIF sector contributes to the build-up of systemic risk in the financial system, as well as how they design, calibrate and implement leverage limits.

Steven Maijoor, Chair, said:

"In situations when financial markets are under severe stress, highly leveraged alternative investment funds can further amplify systemic risk. Considering the size of the investment fund sector, achieving supervisory convergence in NCAs' approaches to monitoring and regulating the use of leverage by alternative investment funds is of the utmost importance

"Our proposed Guidelines address the assessment of leverage-related systemic risk and aim at ensuring that NCAs adopt a consistent approach when assessing whether the condition for imposing leverage-related measures are met."

Next steps

ESMA is seeking stakeholders' feedback on the proposed principles to set leverage limits under Article 25 of Directive 2011/61/EU. It will consider the feedback it receives to this consultation by 1 September 2020 with a view to finalising the guidelines for publication