

# Time running out for alternative investment and Ucits funds to implement stress test systems

By Rebekah Tunstead | 11 September 2019

A lack of sufficient time to implement liquidity stress testing systems to comply with new European requirements is causing concern among managers of alternative investment funds (AIFs) and undertakings for the collective investment in transferable securities (Ucits) funds, according to a board director of an investment fund and the International Capital Markets Association (ICMA).

“It’s about making sure you’ve got your allocation of resource aligned and timetabled correctly to be able to bring this in,” says Simon Elvidge, board director at EOS Investment Management. “It shouldn’t be too difficult to [implement systems] but there is going to be limited internal resource available to do it and limited expertise in order to deliver it.”

“If any issues arise, it is because there is going to be a lack of expertise internally to do this in a manner that integrates holistically into the fund and the managers’ processes appropriately. There will be a little pain associated with doing this if you don’t have the systems already,” he says.

On September 2, the European Securities and Market Authority (Esma) [published](https://www.esma.europa.eu/press-news/esma-news/esma-strengthens-liquidity-stress-tests-investment-funds) (<https://www.esma.europa.eu/press-news/esma-news/esma-strengthens-liquidity-stress-tests-investment-funds>) final guidance on liquidity stress testing for AIFs and Ucits. This will require fund managers to plan a set of guidelines for scenarios, policies, and the frequency of liquidity stress tests for the funds they manage.

The guidelines also require fund managers to stress test the assets and liabilities of the funds. The stress testing of liabilities will be a new undertaking for many firms and could prove difficult due to difficulties in gathering data, according to Arthur Carabia, director of market practice and regulatory policy at the ICMA.

“Asset managers will need to change their systems or update them, as they will have to look at new items,” says Carabia. “There is a strong focus on liabilities required by Esma while traditionally liquidity stress test have been focusing on the asset side. From a liability perspective, availability of and access to data remains the main challenge for asset managers with retail funds. Regulators should provide more support to asset managers to overcome this challenge as it will improve the stress test models through better profiling of underlying investor types.”

Firms will have until September 30, 2020 to comply with the requirements, giving them only 11 months to prepare. That's a difficult undertaking for smaller firms, says Carabia.

"It is key in our view that regulation does not create irremediable entry barriers or evicts smaller players as diversity is also an element in favour of financial stability. We regret however the short implementation deadline which could be challenging to meet as availability of data needs to be improved."

But for Elvidge, firms should have been doing these tests before now.

"If firms aren't doing most of this already, then they should be questioning what they are doing," he says. "There will probably be quite a few firms where this would come as a shock, but it will refine, define and formalise what should be going on already."

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