

Liquidity Risk

Understand – Assess – Manage

In recent months, the European Securities and Markets Authority (ESMA) has brought greater focus and tougher scrutiny onto European investment fund managers (IFMs) for liquidity issues and related mismatches. Following a recent stress testing simulation study, ESMA has identified significant shortfalls in this area. Further negative headlines of major European investment vehicles defaulting on their payment obligations has amplified these concerns, leading to a series of regulatory actions at the European and national levels, starting with the CSSF's adoption of Circular 19/733 (the "Circular") setting out best practices on liquidity risk management for open-ended funds. In addition, ESMA has published its final report on stress testing guidelines, complementing the Circular with best practices for anticipating stressed markets. While broader in scope and covering all IFMs with only a few exceptions, it nonetheless provides for a more granular, principles-based assessment.

In light of recent regulatory developments, combined with a market infrastructure shaken to its core by COVID-19, liquidity risk is certain to be a key topic going forward.

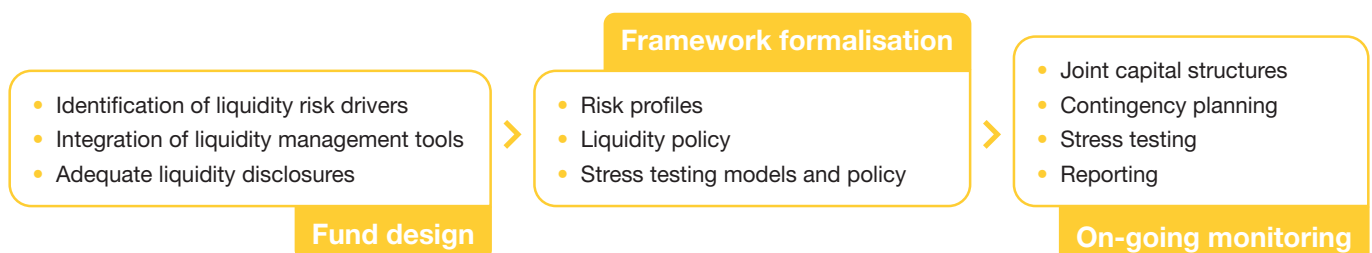


How can we assist you?

Keeping pace with regulatory changes and practices is becoming increasingly challenging. The string of recent regulatory actions raises many questions that IFMs may need to answer in the near future, such as:

- ✓ Has the set of potential liquidity risk drivers for our funds been identified, and do we know what would constitute a suitable approach to monitoring them in normal and stressed markets?
- ✓ Is our risk management framework in line with regulatory requirements?
- ✓ Do we have proper governance in place in order to ensure efficiency?

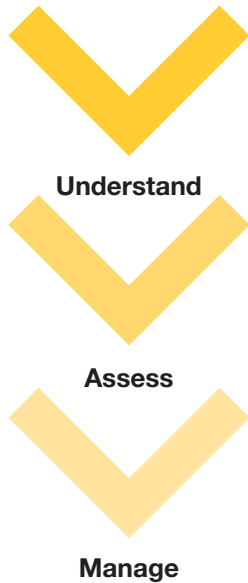
Our position within the Arendt group means we can address each of these questions and create bespoke liquidity risk management solutions for your funds. Our approach combines comprehensive knowledge of liquidity risk analytics with regulatory and legal expertise, letting you unlock added value: through proper financial oversight and enhanced contractual flexibility, we help prepare your funds for challenging markets, and offer appropriate solutions for every point in their lifespan.



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No matter which hurdles you face throughout the lifespan of your funds, Arendt Regulatory & Consulting's team of experts has the requisite knowledge of regulatory requirements,

market practice and business needs for your regulated entity in Luxembourg. Regulatory navigation is complex. Let us help.



✓ Understanding of regulatory requirements and how the intersect with client's needs and expectations

- Targeted liquidity risk training for open-ended and closed-ended funds
- Gap analysis of existing liquidity framework

✓ Assessment of fund liquidity risk profiles

- Identification of liquidity risk drivers on both the asset and the liability side
- Identification of appropriate key risk indicators
- Review of the liquidity risk monitoring framework

✓ Definition of the liquidity monitoring framework

- Advice or full review of liquidity management indicators
- Advice or full review of stress testing models
- Design and drafting of a liquidity and stress testing policy

Why Arendt?

Arendt's dedicated risk advisory team is ideally positioned to offer clients a global and pragmatic approach, by capitalising on significant risk management expertise and experience as well as on our positioning within the Arendt group. We bridge the gap between legal advice and implementation, providing a broad range of risk management solutions tailored to each client's needs. Leveraging a strong compliance and regulatory background, we work hand-in-hand with the law firm Arendt & Medernach to offer assistance to risk managers and Conducting Officers responsible for oversight of risk management activities.

We are Arendt – the leading legal and business services firm in Luxembourg. We would be pleased to put our experience optimally aligning risk management frameworks with regulatory demands at your service.

For more information, contact us at RiskTeamARC@arendt.com or www.arendt.com

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