

## OPINION

### **Collection of information for the effective monitoring of systemic risk under Article 24(5), first sub-paragraph, of the AIFMD**

#### **1. Legal basis**

1. ESMA's competence to deliver an opinion is based on Article 29(1)(a) of Regulation (EC) No 1095/2010 (the 'Regulation'). In accordance with Article 44(1) of the Regulation the Board of Supervisors has adopted this opinion.

#### **2. Background**

2. ESMA has published a final report on guidelines on reporting obligations under Articles 3(3)(d) and 24(1), (2) and (4) of the Alternative Investment Fund Managers Directive<sup>1</sup> (AIFMD). These guidelines (see Annex II of ESMA/2013/1339<sup>2</sup>) aim at clarifying the content of the information that alternative investment fund managers (AIFMs) should provide to their national competent authorities (NCAs) when complying with the provisions of Articles 3(3)(d) and 24(1), (2) and (4) of the AIFMD.
3. The reporting template set out in Annex IV of Regulation 231/2013 implementing the AIFMD (the Regulation) provides for an extensive set of information to be reported by AIFMs to their NCAs. However, ESMA believes that the effective monitoring of systemic risk potentially caused by one AIFM or a group of AIFMs would be facilitated by NCAs' also adopting a common approach when making use of their power to require additional information under Article 24(5), first sub-paragraph, of the AIFMD. This additional information would also allow for a more comprehensive oversight of the activities of AIFMs by supplementing the reporting in such areas as risk measures and short positions.
4. In this opinion, ESMA provides details on a set of additional information that, in its view, NCAs could require AIFMs to report on a periodic basis pursuant to Article 24(5), first sub-paragraph of the Directive.

#### **3. Information relevant for effective monitoring of systemic risk**

- Information on the number of transactions
5. ESMA believes that information on the total number of transactions carried out using a high frequency algorithmic trading technique, as defined in the forthcoming revised Markets in Financial Instruments Directive (MiFID II), together with the corresponding market value of buys and sells in the base cur-

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<sup>1</sup> Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

<sup>2</sup> [2013/ESMA/1339](#)

rency of the AIF over the reporting period, could be usefully collected by NCAs. ESMA is of the view that it would be appropriate for NCAs to require this information to be reported following the entry into force of MiFID II.

- Information on geographical focus based on the domicile of investments made
6. ESMA would see merit in NCAs' requiring that information on the geographical focus also be expressed as a percentage of the total value of assets under management calculated in accordance with Articles 2 and 10 of the Regulation, so that the impact of financial derivative instruments is better taken into account.
    - Information on short positions
  7. According to the reporting template set out in the Regulation, AIFMs shall specify the five most important instruments in which the AIF is trading and whether the positions are short or long. When AIFMs report short positions, ESMA considers it desirable for NCAs to require that this information be supplemented by an indication of whether the position is used to hedge a position with a similar economic exposure. In that context, ESMA believes it would be appropriate for NCAs to require information on the extent of the hedging expressed as a percentage.
    - Information on risk measures
  8. Where relevant, according to the predominant AIF type of the AIF, ESMA would see merit in NCAs' requiring information on the Value at Risk (VaR) of the AIFs to be reported. For example, such information would be particularly relevant for AIFs pursuing hedge fund strategies.
  9. Where an AIFM reports the VaR of the AIF, ESMA would consider it appropriate for NCAs to require the VaR to be computed as of the last business day of the reporting period with an interval of confidence of 99% over a period of 250 days and with a 20-day holding period using either a Monte Carlo simulation or Historical simulation or a Parametric VaR.
  10. Moreover, ESMA believes that, where relevant according to the investment strategy of the AIF, further information such as the portfolio's sensitivity to a change in FX rates or commodity prices would constitute useful information to be required by NCAs.
    - Information on non-EU master AIFs not marketed in the Union
  11. Reporting obligations under Article 24(2) of the AIFMD cover only EU AIFs or AIFs marketed in the Union. This means that AIFMs are not required to report information under Article 24(2) of the AIFMD for non-EU AIFs that are not marketed in the Union.
  12. Therefore, in order to have a comprehensive set of information for a proper assessment of systemic risk, ESMA considers it desirable for NCAs to require AIFMs that manage non-EU master AIFs that are not marketed in the Union to report, in addition to the information under Article 24(1), for these AIFs the information requested by Article 24(2) of the AIFMD in so far as one of the feeder AIFs of these master AIFs is an EU AIF or is marketed in the Union. However, ESMA does not consider it useful for NCAs to require this information to be provided if the non-EU master AIFs and the feeder AIFs mentioned above do not have the same AIFM.