



Asset Management & Investment Funds Update

February 2022

ESMA Launches UCITS and AIF Valuation Compliance Review

On 20 January 2022, ESMA launched a common supervisory action (**CSA**) to review compliance by fund managers with the valuation-related provisions in the UCITS and AIFMD frameworks, in particular the valuation of less liquid assets. No timeline or methodology for the CSA has yet been published but we expect the Central Bank will shortly engage with relevant firms.

The focus of the CSA will be on:

- managers of UCITS and open-ended AIFs investing in less liquid assets i.e., unlisted equities, unrated bonds, corporate debt, real estate, high yield bonds, emerging markets, listed equities that are not actively traded, bank loans;
- ensuring consistent and effective supervision of valuation methodologies, policies and procedures of fund managers to ensure that less liquid assets are valued fairly both during normal and stressed market conditions, in line with applicable rules; and
- assessing valuation risks which may pose a potential threat to financial stability at EU level.

Next Steps

As was the case with ESMA's first two UCITS CSAs (liquidity risk management and costs and fees), in-scope fund managers (see first bullet above) are likely to receive requests for information to support the Central Bank's review of compliance with relevant rules and requirements. The focus of such information requests, which may initially take the form of a questionnaire issued on terms similar to the questionnaires for the liquidity and costs CSAs, is likely to be on the valuation methodologies, policies and procedures adopted in respect of funds under management. While the launch notice does not reference a specific timeline for the valuation CSA, other than to note that regulators will share knowledge and experiences throughout 2022, fund managers should prepare for near-term engagement by the Central Bank and ensure valuation policies and procedures are in line with applicable rules and regulatory expectations to avoid being subject to any risk mitigation actions which may form part of the post-information gathering phase of the CSA.

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