

Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company (Text with EEA relevance)

CHAPTER VI

RISK MANAGEMENT

(Article 51(1) of Directive 2009/65/EC)

SECTION 2

Risk management processes, Counterparty risk exposure and issuer concentration

Article 40

Measurement and management of risk

1 Member States shall require management companies to adopt adequate and effective arrangements, processes and techniques in order to:

- a measure and manage at any time the risks which the UCITS they manage are or might be exposed to;
- b ensure compliance with limits concerning global exposure and counterparty risk, in accordance with Articles 41 and 43.

Those arrangements, processes and techniques shall be proportionate to the nature, scale and complexity of the business of the management companies and of the UCITS they manage and be consistent with the UCITS risk profile.

2 For the purposes of paragraph 1, Member States shall require management companies to take the following actions for each UCITS they manage:

- a put in place such risk measurement arrangements, processes and techniques as are necessary to ensure that the risks of taken positions and their contribution to the overall risk profile are accurately measured on the basis of sound and reliable data and that the risk measurement arrangements, processes and techniques are adequately documented;
- b conduct, where appropriate, periodic back-tests in order to review the validity of risk measurement arrangements which include model-based forecasts and estimates;
- c conduct, where appropriate, periodic stress tests and scenario analyses to address risks arising from potential changes in market conditions that might adversely impact the UCITS;
- d establish, implement and maintain a documented system of internal limits concerning the measures used to manage and control the relevant risks for each UCITS taking into account all risks which may be material to the UCITS as referred to in Article 38 and ensuring consistency with the UCITS risk-profile;
- e ensure that the current level of risk complies with the risk limit system as set out in point (d) for each UCITS;

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f establish, implement and maintain adequate procedures that, in the event of actual or anticipated breaches to the risk limit system of the UCITS, result in timely remedial actions in the best interests of unit-holders.

3 Member States shall ensure that management companies employ an appropriate liquidity risk management process in order to ensure that each UCITS they manage is able to comply at any time with Article 84(1) of Directive 2009/65/EC.

Where appropriate, management companies shall conduct stress tests which enable assessment of the liquidity risk of the UCITS under exceptional circumstances.

4 Member States shall require management companies to ensure that for each UCITS they manage the liquidity profile of the investments of the UCITS is appropriate to the redemption policy laid down in the fund rules or the instruments of incorporation or the prospectus.