

**Question for written answer Z-029/2021
to the European Central Bank**

Rule 140

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Subject: Hedge funds and potential systemic risks

According to ESMA's Annual Statistical Report 2021 on the European Alternative Investment Funds (AIF) market, gross exposures of hedge funds account for more than 60% of the total 6 800 billion of AIFs' net asset value. The report also estimates the average adjusted leverage of 75% of those hedge funds to be around 330% of the net asset value, with a few very high outliers, pushing the overall average to around 1 000 %. Given these leverage values, the recent financial turbulence caused by the margin call on Archegos and the fact that many hedge funds frequently use interest rate swap derivative contracts, can the ECB state:

- whether it considers that potential systemic risks may arise from hedge funds' investments in situations of market stress, and what the impact would be in the event of significant fluctuations in interest rates, given the high use of leverage and interest rate swaps;
- whether it considers there is a need to step up the supervision of hedge fund operations?