association of the
luxembourg fund industry

ALFI Response to ESMA's Consultation Paper
Draft guidelines on the reporting to competent authorities under article 37 of the MMF Regulation
13 November 2018 | ESMA34-49-144

ALFI would like to thank ESMA for the opportunity to respond to the Consultation Paper on draft guidelines on the reporting to competent authorities under article 37 of the MMF Regulation.

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community. The Association is committed to the development of the Luxembourg fund industry by striving to create new business opportunities, and through the exchange of information and knowledge.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of business that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialised IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

Luxembourg, 12 February 2019.

Q1 Are you of the view that there could be merits for managers of MMFs subject to yearly reporting in accordance with article 37(1) of the MMF Regulation to report on a quarterly basis so that their corresponding operational process is less burdensome?

A1 Yes, there would be merits in having MMFs reporting quarterly, considering that stress tests have to be done at least twice a year. Moreover, for new funds, with the expectation that these funds could pass the threshold of 100 million EUR, a quarterly reporting from the beginning could make sense. However, quarterly reporting should be an option, not an obligation.

<u>Additional observation</u>

Following on the example that is set out on page 16/ 17 of the consultation – "*Case 1 – From MMF with yearly reporting obligation to MMF with quarterly reporting obligations*":

We believe it will not be practical to immediately switch to the quarterly reporting for the quarter during which the change of status is occurring. Indeed, it will require collecting information backwards whereas the system used for reporting will not have fed the relevant information for each data field in a timely fashion. We would instead recommend to report quarterly from the next quarter only.

Q2 Do you identify potential situations in which managers of MMFs do not have any information to report on MMFs other than those listed above (e.g. certain types of situations of liquidation of the MMF)?

A2 No, but the first reporting occurring at the exact authorization date as stated in paragraph 25 would be too cumbersome, especially for funds launched at the end of the quarter. Generally speaking, we invite ESMA to align the requirements for reporting under Article 37 of the MMFR with the practice adopted in the context of the AIFMD.

Additional observation

We welcome additional clarification on the situation of the fund that was never launched with regards to the “last reporting flag”.

Q3 Do you agree that the MMF Guidelines could specify which sources should be used by managers of MMFs if the base currency is not included in the list of currencies for which the ECB provides an exchange rate? If yes, which sources should be used in your view?

A3 ECB FX official rates should be sufficient for the needs of managers.

Q4 Do you identify any other issue that would need to be specified in relation to the above section on “general principles” of the reporting template?

A4 No, we do not (but see below).

Additional general observation on the reporting file and template

We welcome the fact that ESMA has leveraged on the AIFMD exercise, but we would appreciate receiving additional information on the type of reporting.

In particular we would see merit in receiving the template to be used, the exact list of fields to be populated with indication of the possible values (numeric, alphanumeric characters, optional/ mandatory data fields). Similarly, we assume that the reporting template will be requiring XML but would welcome confirmation thereof.

The above information is key for any IT developments, considering that proprietary systems and/ or external software will require additional functionalities which take some time to develop.

We would thus very much appreciate knowing when we should expect the template to be published and receiving the details set out hereabove.

Q5 Do you agree that if an MMF is composed of different share classes that differ in relation to their base currency the base currency that should be included in field A.1.12 should be the base currency as specified in the accounting documents of the MMF or are you of the view that in that case the base currency of the largest share class should be included in field A.1.12? Would you see merit in aligning the inception date mentioned above in section X with the first reporting date, as defined in section II?

A5 The base currency of the accounting documents should be included in this case, because it is static data. Conversion of the NAV per share in a different currency is typically done for commercial reasons, for instance to ease the comparability of performance in other currencies than the base currency of the fund.

We see no merit in aligning the inception date with the first reporting date, since it is preferable from an operational standpoint to report from the first NAV calculation on, which can also happen when an existing fund converts into an MMF. The inception date is different from authorization date.

Q6 Do you identify any other issue that would need to be specified in relation to the above section on the block 1 of the reporting template?

A6 With regard to paragraphs 64, 67 and 72 we suggest changing from “quarter” to “period”, thus resulting in: paragraph 64 “Managers of MMFs should provide the last report of the MMF to their NCA not later than 30 days after the end of the period in which the MMF has been merged”; paragraph 67 “Managers of MMFs should submit the last MMF report not later than 30 days after the end of the period in which the MMF has been liquidated or put into liquidation”; paragraph 72 “Managers of MMFs should submit the last MMF report not later than 30 days after the end of the period in which the MMF has been withdrawn its authorization”. We would like to suggest flexibility and make it optional to report no later than 30 days after the end of the reporting period, since events (merger/ liquidation/ authorization) may also occur shortly before the end of the quarter, thus leaving practically no time to prepare the correct reporting.

<u>Additional general observation on paragraph 55 in respect of the CNH/ CNY currency codes</u>

The official code of Chinese currency in the ISO list is CNY which is also the currency for which the ECB is publishing an official exchange rate.

As an additional remark, please note however that since the underlying asset is denominated in CNY and the investor's money is collected in the offshore market where CNH is normally used, the valuation issue may arise due to the basis risk between CNY and CNH.

Q7 Are you of the view that the abovementioned specification leaves too much room for interpretation and would lead to data that is not comparable? Are you of the view that settlement periods should be taken into account and that, as a consequence, the last part of the abovementioned specification (“if it has as a non-negligible impact on the liquidity profile of the MMF”) should be removed?

A7 The specification of the section is sufficient and in line with the AIFMD approach. The last sentence should not be removed as it allows to exclude marginal impacts, which are not meaningful for the calculation of the liquidity profile.

Q8 Do you have any views in relation to the abovementioned formula on how to measure the monthly portfolio volatility or are you of the view that another formula would be welcome?

A8 We believe that the formula set out above in the above question represents a volatility of monthly portfolio returns rescaled to a yearly basis that is typically called “annualized portfolio volatility” and not “monthly portfolio volatility”.

If the intention of ESMA was to request reporting annualized volatility then we would recommend describing it explicitly as annualized to avoid a misinterpretation of the term “monthly portfolio volatility”.

For example, we would understand the term “monthly portfolio volatility” as (not annualized) volatility of monthly portfolio returns, see the corresponding formula below.

$$\sigma_f = \sqrt{\frac{1}{T-1}\sum_{t=1}^{T}(r_t-\bar{r})^2}$$

Q9 Do you identify any other issue that would need to be specified in relation to the above section on the block 2 of the reporting template?

A9 We would welcome clarification on the exact formula to be used when calculating cumulative returns which is mentioned in paragraph 85 (over which period, net of fees etc.), in order to ensure consistency and comparability of figures published.

With regard to paragraph 87, we do not necessarily agree that the most representative share class should be understood as the share class associated with the highest NAV proportion or so at the end of the reporting period. This could be particularly misleading for instance in the situation where the highest NAV changes just before the reporting deadline. The most representative share class should be selected by the manager based on principles of representativeness and consistency.

Q10 Do you identify any other issue that would need to be specified in relation to the above section on the block 3 of the reporting template?

The Consultation Paper indicates that the common risk parameters related to the stress tests are to be specified by ESMA in the context of the Guidelines on MMF stress tests (see paragraph 58 in Section V. Specifications on the reporting template).

If there is any flexibility with respect to the construction of the stress tests, ALFI believes it would make sense to include an additional field with the description of the stress test parameters used.

A10 Some stress testing may not be relevant for money market funds, for instance where a money market fund invests only in assets denominated in same currency than the base currency of the NAV per share, there will be no FX risk.

Q11 With the respect to the CFI codes to be provided, do you identify any eligible asset not included in the table in the Annex of the Guidelines?

ALFI has no further observation and considers that the list appears to be complete.

Q12 Do you agree with the proposals of ESMA in relation to the domicile of the abovementioned assets?

A12 It is unclear to us what the objective of this question is. We suggest consistency with the AIFMD approach.

Q13 Do you agree that a category “supranational/multiple regions” should be included in the potential geographical areas to be chosen? If yes, could you provide examples of assets for which you would choose that category?

A13 Yes in order to have a consistent geographical breakdown with AIFMD.

Q14 Do you agree that the clean price of the money market instrument (A.6.12), this field should always be reported in absolute terms (in monetary values, not in percentages)? Which of the 2 abovementioned options on the “base currency” mentioned in field A.6.13 would you favour: currency of the asset or the currency of the MMF?

A14

We agree that the clean price of the money market instrument should be reported in monetary values.

We assume that the term “currency of the fund” refers to the base currency of each sub-fund in an umbrella structure. Both the base currency of the fund and the assets’ currencies would be an option but the final choice is triggered by the use that ESMA will make out of this reporting. At this stage we would recommend to consider the base currency of the fund as regards field A.6.13. Having the same currency across all individual sub-funds will facilitate comparisons and completeness checks.

Q15 With respect to fields A.6.23 to A.6.25, would you identify any cases where there is no sponsor of an eligible securitization or asset backed commercial paper?

A15 To avoid any reporting from being rejected to lack of date, we would recommend to leave the option not to fill in that specific field. We have not been in a position to identify any concrete case of missing information based on spot checks made on some portfolios but cannot conclude that the case would never present itself (as this would require to make a screening of all eligible instruments in all markets which we have not done at this stage).

Q16 Do you identify other potential contract types that would need to be included in the list above in relation to field A.6.39?

A16 The list looks fairly complete but we are wondering why there are separate categories for futures and futures on swap (and no category for other types of futures contracts such as futures on options for instance) – same observation on forwards on a swap and forwards). In addition we would suggest to use the classification used in the AIFMD.

Q17 Do you see merits in clarifying what should be the name of the underlying as referred to in Field A.6.45? If yes, which specifications would you expect?

A17 We believe that consistent naming will not necessarily be achievable but since field A.6.47 requires to provide the ISIN of the underlying, we would have thought that this is sufficient for the purpose and that the name of the underlying is secondary information.

Q18 Are you of the view that ESMA should further specify what is meant by “exposure” in fields A.6.91 and A.6.92? If yes, which types of specifications would you suggest?

A18 We agree on the definition of the gross exposure that ESMA is suggesting with reference to fields A.6.91 and A.6.92. Incidentally, kindly note that in Luxembourg this principle has already been adopted by the Commission de Surveillance du Secteur Financier in the UCITS reporting applying to Luxembourg domiciled funds.

Q19 Do you identify any other issue that would need to be specified in relation to the above section on the block 4 of the reporting template? In particular, in your view, how would the NAV of the MMF compare to the sum of the values of the fields on total market values (and quantity) of money market instruments, securitization and ABCP, financial derivative instrument, unit or share of other MMF, deposit or ancillary liquid asset, repurchase agreement and reverse repurchase agreement (A.6.16 and A.6.11, A.6.34 and A.6.29, A.6.54, A.6.67 and A.6.69, A.6.80, A.6.91)? Do you have any comments on the table “CFI codes for eligible securities” included in the annex of the Guidelines?

A19 Accrual for expenses, payables and receivables (for instance on transactions) do not seem to be taken into consideration in the list of items that are reported, hence we would deduct that the total NAV will not necessarily be equal to the total of the different categories reported here.

With respect to the table “CFI codes for eligible securities” included in the annex of the Guidelines, we would like to make the following observations:

a) Based on our own research, we found out that CFI codes (at the higher level of the asset category) seem to be systematically available whenever an ISIN is issued.

b) However, we suspect that there might be instances where the CFI codes allocated are not consistently reported in the different databases of external providers. We would like to quote one particular example of an instrument that is a Commercial Paper issued under a EU-CP program by the “Caisse des Depots et Consignations”. An ISIN (XS1939218928) was attributed by Euroclear. Hence, its complete CFI is DNFXFB, or DN**** as per ESMA protocol, categorizing the Commercial Paper as a “Municipal Bond”. On the other hand, BBG in its field DT719 BLOOMBERG_CFI_CODE which returns the first two characters of the code generated in application of Classification of Financial Instruments (2015 ISO 10962) is returning DYXXXX or DY**** as per ESMA protocol, categorizing the Commercial Paper as a “Money Market Instrument”. Bloomberg is not referencing any official CFI Code (Field code DY251).

c) Conversely, we believe that they could be situations where no ISIN code is issued, hence no CFI code would be available. This raises the question of knowing whether these two codes will be compulsory fields or optional in the reporting template (such as in A6.4 and other similar fields).

Q20 Do you identify any other issue that would need to be specified in relation to the above section on the block 5 of the reporting template?

A20 No.

Q21 Do you identify any other issue that would need to be specified in relation to the above section on the block 6 of the reporting template?

A21 We are not sure why one should take the view that the currency in which the price is expressed should be EUR in paragraph 135 "*With respect to the price referred to fields B.1.4 and B.1.5 (price when the event occurs, using the amortised cost method with respect to B.1.5), the currency in which this price is expressed should be EUR*". Shouldn't it be the base currency of the fund instead?