

The Association Française des Investisseurs Institutionnels - Af2i

answers the CESR consultation paper about

a common definition of European money market funds

The Association Française des Investisseurs Institutionnels , “ Af2i”, representing 72 French Institutional Investors having about 1 200 billion euros under management, welcomes the CESR project to establish a clear definition of the European money market funds, this project being in a perfect accordance with the Af2i own workshop conclusions .

Af2i associates did explore this matter, which is an important one for them, as they are major providers in the financing of the whole economy through a system of financial flows which is composed with various feeders and various durations . Of course a reliable and steady market of monetary funds is an important part of this system .

In order to get a wide and clear view on this matter, as for the third term of 2009, Af2i launched its own consultation to its own associates and the answers provided the dedicated workshop of the association .

The main steady issues of their conclusions are :

- A significant, clear, stabilized and controlled definition of the monetary funds is necessary for the efficiency and the development of the market and the economy
- Monetary funds must be kept out of any kind of equity or exchange risks
- Monetary funds must limit their credit and rate risks by using the highest quality market instruments with maturities of no more than 6 months on an average basis with a maximum of 12 months for one instrument
- It is emphasized that the only significant maturity definition is the duration to the repayment of the capital of the instrument without considering any yield adjustment as a possible definition for “maturity”
- Clear information about the instruments, the management policies, the valuation rules and clear reporting about the results of each of these items are very important issues and have to be maintained and improved all along the duration of the funds
- On a quantitative point of view, Af2i own consultation revealed that 33% of associates investors declare to reduce their exposure to money market funds while 3% intent to increase their exposure

Furthermore, the Af2i association wishes to answer the different questions the CESR is asking .

Questions

- 1 Of course Af2i agrees with a definition based upon the Mifid principles and a clarification of this definition for closer conditions of use aiming to a higher level of security . Security is a particular matter for our associates when dealing with “constant or stable net asset value funds” which seem not as transparent as they should be and, so, should be dedicated to professional investors only
- 2 Af2i agrees with the proposal to have a common definition of European money market funds
- 3 Transparency, simplicity and, so, better information and development of the European market urge to apply the definition to UCITS and non-UCITS European monetary market funds
- 4 Af2i agrees with the two-tier approach which improves the accuracy of the definition
- 5 Af2i has recorded, as a result of its own enquiry, that the maturity to refunding of the undertakings is the crucial issue, so , what about a scale with 3 “labels” from “very short” to “short” and “medium” ? Noted XS – S – M ?
- 6 Yes we do consider that 12 months is a sufficient transitional period, but we ask for more and immediate information about the maturities criteria in the ongoing funds, on a pro forma basis
- 7 Af2i believes that the 1A option is the best with a consistent part to be played by the management . An internal rating procedure should be allowed, even including external ratings, as soon as (1) the whole procedure is mentioned and described in the prospectus and (2) it is an item in the reporting

Options 2B and 3B are preferred, with a demanded issue : the only reliable criteria about the maturity item must be the residual maturity to the repayment of the capital for each instrument, final repayment or put option

Option 4B is preferred, Af2i does not see any case where mixing markets and risk management policies, which might be very different, inside an only fund, can provide any transparency . It is wiser to built different funds, obviously
- 8 No
- 9 Af2i thinks that (1) the management of each of these risks have to be described and reported (2) the shortening of the residual maturities to the final redemption of the papers is a way to reduce the credit, liquidity and interest rate risks . (3) The currency risk should be avoided, if any, it should be clearly mentioned in the information documents (weight, currencies, hedging)

- 10 Structured financial instruments must be clearly kept out, or limited to 5% of the assets, so the 4b option is more appropriate
- 11 The currency risk management, if any, is to be described, limited, hedged and reported as shown in the prospectus
- 12 The investment decisions must be a responsibility of the management in accordance with the declared policy and its reporting (see answer to Q # 7) . The main issue about the duty of selection for the management is the information they give to investors before and during the investment period in terms of methods, skills, criteria of selection, valuation rules and reporting
- 13 to 19 As for “longer-term money market funds” Af2i strongly believes that the only things to adjust are the durations of the portfolio on an average basis and the maximum residual maturities to the repayment of the capitals of the instruments inside decent limits (6 months in an average basis, 12 months for an instrument as maxima) .

No other risk or kind of risk are to be considered differently

Conclusion

The Af2i association

- welcomes the CESR initiative to built a unique classification for European money market funds, UCITs and non-UCITs all together
- chooses the final redemption of an instrument as the only definition for calculating the residual maturity
- is fond of very short legal residual maturities as a way for managing credit and interest rate risks
- excludes any equity or exchange risk
- accepts internal rating procedures, if clearly described and reported
- stresses the demands from the Institutional Investors for more information about the management policies and the fair reporting in the same alignment