

**RESPONSE OF NATIXIS ASSET MANAGEMENT TO THE CONSULTATION PAPER ON
CESR'S PROPOSAL FOR A COMMON DEFINITION OF EUROPEAN MONEY MARKETS
FUNDS (CESR- 09/850/ 20 October 2009)**

INTRODUCTION

Natixis Asset Management ("Natixis AM"), as a large provider of money marked funds in Europe, welcomes CESR's intention to enact a common and European-wide definition of MMFs. In this context, we consider the following features as essential to achieve a framework consistent with both investors' expectations and the requirement for more transparency and protection:

- A common definition of European MMFs should be implemented simultaneously with common funds' accounting rules at the European level, especially with respect to valuations.
- A single-type MMF category is regarded as preferable to a two-tier approach because:
 - a single-type MMF category much better fits with the requirement by investors for simplicity;
 - establishing two types of money-market funds creates a risk of marginalization of one of them due to IAS7 accounting rules.
- The common definition of European MMFs should be in line with the expectations of money markets investors with respect to maturity, and so allow gaining exposure to debt instruments with maturities up to two years, in order to provide a maximum average life of up to one year.
- The common definition of European MMFs should not end up with excluding certain high quality debt instruments, such as asset-backed securities, which help with the goal of maintaining a low and diversified credit risk. In addition, we consider the investment-grade investment universe as the most appropriate to achieve investors' protection. A more restrictive approach would not be consistent with this goal because it would not allow a sufficient level of credit risk diversification.

As to the transitional period granted to comply with the new definition, we agree with CESR's proposals except for one issue: we consider that securities purchased before 1st January 2008 should be outside of the scope of the new rules and be "grandfathered" for an unlimited time. Indeed, these securities were not outside of their relevant regulatory framework at the time of their purchase. Yet, to protect the integrity of the proposed new regulatory definition, such "grandfathering" may not apply to more than 10% of a fund's net assets and the WAL of the fund itself should immediately comply with the new definition.

QUESTION 1: Do you agree that such clarification is desirable?

Natixis AM agrees that a clarification of the definition of what is exactly meant by a money market fund is a welcome development. The recent market turmoil, which has affected various funds in Europe or in the USA that described themselves, rightly or wrongly, as money market funds, has adversely impacted some investors to a degree they seemed not to expect, and triggered public authorities intervention. These recent events have shown, at least in certain instances, that there existed a discrepancy between the risk profile investors expect from a money-market fund and the actual risk that materialized. A clarification is thus needed for both providers and users of money market funds.

At this stage, we would like to urge some caution about the use of the MiFID definition of money-market funds. Though, it is logically a good approach to try and build on previous legal or regulatory work, we would want to point out that in this particular case the MiFID definition has, in our view, many shortcomings that make it of limited use in order to establish a solid definition of money market funds.

In our opinion, the MiFID definition is narrowly focused on certain very specific characteristics like Weighted Average Maturity, with limits that may or may not be appropriate, or settlement issues, with characteristics that seem out of line with current practice in many countries. In our view, the MiFID definition:

- is incomplete in that it does not address fundamental issues like Weighted Average Life;
- is also not always appropriate in the issues that are indeed addressed: for example, it is not so much "same" or "next day" settlement which are a defining characteristic of an MMF, but rather a subscription/redemption frequency that should be on a daily basis and with a short settlement delay (up to 3 days).

So we think it would make more sense here to set out a clarification of MMF definition starting from a "blank sheet" and not be constrained in any way by the MiFID definition.

QUESTION 2: Do you agree with the proposal to have a common definition of European money market funds? If not, please explain why.

Natixis AM fully agrees with the proposal to have a common definition of European money market funds as there is clearly a need to establish a European level-playing field in that area. Our current practice evidences a more and more unified market for MMFs, thanks to the advent of the euro, with providers based in various European jurisdictions offering investment services to clients also in various European jurisdictions. A common definition of MMFs applying at the European level would undoubtedly be a decisive and useful step in establishing a European level playing-field in this area.

Now, we feel that it is very important to insist upon the fact that a common European definition of MMFs, which would have a regulatory power, may not go without corresponding uniform accounting rules. Uniform accounting rules are especially needed with respect to valuations, as various methods co-exist today in various jurisdictions (amortised cost, mark-to-market, sometimes a mixture of both depending on residual maturity of the relevant instrument). If common European accounting rules for MMFs were not to be implemented at the same time as the new proposed definition of MMFs, competition distortions would necessarily appear, which could also probably generate increased risk for investors. Thus, failing to implement uniform accounting rules as regards to valuations at this stage would, in our opinion, go against the goal of improved investor protection.

QUESTION 3: Do you agree with the proposal to apply the definition to harmonised (UCITS) and non-harmonized European money market funds?

We strongly agree with the proposal to apply the common definition of money market funds to both UCITS and non-UCITS. We think that the common definition should apply to the largest possible universe of funds that make use of the money market funds label in order to avoid loopholes and create undesired risks.

QUESTION 4: Do you agree with the proposed two-tier approach?

We do not welcome the proposed two-tier approach as we consider that it can potentially create confusion among investors as to the actual meaning of the money market fund label and the kind of risk it encompasses. In that respect, it may be reminded that confusion occurred in the past with so-called "dynamic" money-market funds. Thus, the mere existence of multiple sub-categories or coupling additional terms with "MMF" may lead to misidentification issues among investors. In our view a single money market fund type is a much better approach to meet investors' requirement for simplicity.

In addition to simplicity, we think that investor protection would be enhanced by adding to KID (prospectuses, etc...) detailed information relating to major risk indicators (interest-rate risk, credit risk etc... to be defined by regulation) and limits applying thereof. This will allow fund providers to offer a range of funds with various levels of risk, all of them carrying low enough risk to be compatible with a money-market fund classification, and with the transparency required for investor protection.

Last but not least, we think that a two-tier approach may end up with the marginalisation of the "Longer-Term" MMFs. This is because we expect that, under the two-tier approach, IAS7 accounting rules would most probably only consider the "Short-Term" MMFs to be eligible as a "cash equivalent", thereby destroying a very large part of the market for "Longer-Term" MMFs. Whether or not the current IAS-using holders of MMFs that would end up with shares of the newly-created "Longer-Term" MMFs would automatically switch to "Short Term" MMFs is doubtful. This is because many of these investors want a certain level of yield, which is not necessarily compatible with the constraints imposed on "Short Term" MMFs. These investors would probably try to "squeeze" more yield by investing themselves directly in the money market instead of using MMFs. Such a scenario would in our mind certainly not be a welcome development for the stability of the money markets and the fund management industry.

QUESTION 5: Do you have any alternative suggestions?

Our alternative proposal is to have a single type of money market fund definition whose risk parameters are compatible with the low level of risk expected by investors. The matter is then to define the various risk parameters that are regarded as being in line with the low level of risk and other requirements expected by money market fund investors.

In our view, as will be outlined below, the risk parameters proposed for "Longer-Term" MMFs are certainly compatible with our proposed definition for a single type of MMF.

It is to be noted that our approach certainly does not prevent those providers who want to offer money market funds whose risk characteristics are even more constrained than those of our proposed single definition may certainly do so, should they wish to. In any case, in order to ensure investors' protection, and as already mentioned in Q4, we think that detailed information are to be added in the KID (prospectuses, etc...) describing major risk indicators

(interest-rate risk, credit risk etc... to be defined by regulation) and limits applying thereof. This will allow fund providers to offer a range of funds all compatible with a simple and unique money-market fund classification, and with the high transparency required for investor protection.

QUESTION 6: Do you consider that the proposed transitional period for existing money market funds is sufficient to enable funds to comply with the definition?

We consider that the proposed transitional period of 12 months for existing money market funds is sufficient to enable fund managers to comply with all the criteria of the new proposed definition, except one important one, which is the limit to legal or residual maturity of securities applying to securities purchased before 1st January 2008. In this particular case, we consider that those holdings should be "grandfathered", i.e. taken out of the new proposed regulatory framework for an unlimited time. Our proposal applies regardless of whether Option 2A or Option 2B is retained.

We think it would be unfair to force upon fund managers to sell securities, perhaps causing losses to fund holders and creating market instability, whereas such securities were not at all outside of their relevant regulatory framework at the time of their purchase.

However, to protect the integrity of the proposed new regulatory framework, we would propose to set two limits to the above-mentioned "grandfathering" clause:

- the WAL of the fund itself should immediately comply with the new framework (taking into account all securities, i.e. including those which are grandfathered);
- the "grandfathering" should not be in excess of 10% of the net assets under management of the relevant funds.

Were a two-tier approach be retained, then the above-described "grandfathering" clause could certainly be limited to the "Longer-Term" money market funds.

QUESTION 7: Do you agree with the proposed criteria for the definition of short-term money-market funds?

As outlined in Q4, we do not recommend establishing a short-term money-market funds category. As per the various criteria for this category, should it exist, we have several remarks detailed in our answers to Q8 to Q12.

QUESTION 8: Do you have alternative suggestions?

We want to put forward various suggestions which will be dealt with on Q9 to Q13.

QUESTION 9: Do you think that the proposed criteria adequately capture the risks attaching to such funds, in particular currency, interest-rate, credit and liquidity risk?

1- Currency risk:

We read from CESR consultation paper as implied that MMFs may carry foreign exchange risk ("a prudent approach to the management of currency [...] risk."), though not through the use of derivatives ("Derivatives which give exposure to foreign exchange may only be used

for hedging purposes"). We do not welcome the fact that MMFs should carry any direct ("first-order") exposure to forex risk, as we think that currency market volatility is way too high to be consistent with any "first-order" exposure to that risk.

We certainly agree with the approach where "Derivatives which give exposure to foreign exchange may only be used for hedging purposes". Now, for the sake of completeness, it may be pointed out that such hedging trades may give rise to "second-order" currency risk, as a by-product of counterparty risk (i.e. failure of the counterparty of the derivative trade). We deem this "second-order" currency risk as very small in comparison with the gain from better diversification of credit risk, plus it is already dealt with by counterparty risk limitations. So overall our view is that investor protection is much improved by the use of foreign exchange derivatives for pure hedging purposes.

Please refer to Q11 as to why we think that the use of securities not denominated in the fund's base currency allows risk reduction for investors in MMFs and so the ability to use currency derivatives to hedge currency risk is necessary without restrictions.

2-Interest-rate risk:

As for interest-rate risk, we consider that a WAM of 60 days is too restrictive. We would favour setting a limit at 90 days which we deem coherent for an MMF. Most standard short-term interest-rate derivative products, for example Euribor futures contracts traded on Liffe-Euronext, are based on a 3-month maturity which thus appears to be a normal benchmark for the upper limit of interest-rate sensitivity of an MMF.

The 3-month maturity also serves as a benchmark for amortised accounting rules, notably in France, which does imply a sufficiently low degree of risk associated to this maturity.

Independently from the matter of setting a limit for interest-rate risk, we deem important to point out that using the terminology "Weighted Average Maturity" or "WAM" as a measure for interest-rate sensitivity creates a risk of misunderstanding for many European investors. Taken at face value, "Weighted Average Maturity" means the weighted average of all maturities of a given fund. It is indeed such latter meaning that we expect most investors would understand. In order to avoid confusion among investors, we would therefore recommend using instead the term "interest-rate sensitivity" or "modified duration" as the measure of interest-rate risk.

3-Credit risk:

We agree that the criteria of inherent credit quality measures, as expressed by a laudable goal such as "high quality", in connection with WAL adequately capture the risks attached to credit exposure.

In terms of inherent credit quality, we share the opinion that an MMF should invest in "high quality instruments". Now, our definition of what should stand behind a "high quality instrument" and the best way to reach that goal, differ from the CESR proposals under review. Please refer to Q12 for a detailed discussion of our approach with respect to "high quality instruments" in the context of money market funds and investor protection.

We use this opportunity to mention that we regard credit exposure through credit derivatives, and specifically single-name credit default swaps, as fully in line with money market investment strategy, as they enable to reach a potentially larger investment universe and so better risk diversification, or to diminish credit risk when buying protection. More complex credit derivatives may not, however, be in line with money market investment strategy, unless used as a protection.

As for the WAL at the portfolio level, we think it is firstly useful to remind that the money-market is usually defined as a market for short-term debt instruments whose maturity is up to a year. Various investors have various tastes and various appetites for various risk/reward profiles. Those investors investing directly in the financial markets (i.e. not through mutual funds) and looking for risk/reward profiles in line with the money-market include, according to the definition, investors buying one-day to investors buying one-year debt instruments.

Now, if instead of investing directly in the market, investors want to use mutual funds in order to benefit from better diversification, those mutual funds associated with the money-market should be able to provide to all the various tastes of investors, i.e. one day to one year maturities. For a mutual fund to be able to serve to those investors who want an exposure to the one-year debt instrument part of the money market, it is therefore necessary to set in our view a corresponding WAL limit, i.e. a WAL limit of one year.

We appreciate the fact that option 1A for "Longer-Term" MMFs does offer the possibility of a WAL "of no more than 12 months". We therefore certainly deem that limit as appropriate in the context of money-market funds on the grounds explained above, i.e. serving investors who want that money-market exposure. Option 3A and 3B are therefore, as general limits, in our view both too restrictive, and would prevent fund management companies to provide investors with the whole risk/reward spectrum consistent with the money market. Since, as stated before, we think that the two-tier approach is not desirable and should be replaced by a single money market category (see Q4), we suggest that there should also be a single limit for WAL and that limit should be set at 12 months.

As for the WAL at individual instrument level, in order to be coherent with our suggested 12-month portfolio WAL limit, we favour setting a single general limit at 2 years (provided that the time remaining until the next interest rate reset is less than 397 days) in order to allow sufficient operational flexibility to those MMFs targeting a one-year portfolio WAL. In terms of the percentage of holdings of the fund reaching the maturity limit of two years (and longer than 1 year), we favour a 10% maximum threshold, as proposed in Option 2A.

As for the discussion related to structured products and their WAL calculations, at the fund level or at the individual instrument level, please refer to Q10 and Q16.

4- Liquidity risk:

We regard the liquidity risk requirements of the CESR consultation paper as a step in the right direction but perhaps still falling short of some necessary rules. In our mind, the criteria of settlement through same day or next day addresses the issue from the point of view of the fund's liabilities, but then a corresponding investment policy should be carried out on the asset side so as for a fund to be able to meet unexpected redemptions. In this respect, the WAL criteria (both at individual instrument and at portfolio level) certainly create favourable conditions to meet unexpected redemptions. But, in our view, there misses a specific requirement for "natural liquidity", i.e. cash received by the fund arising from maturing debt instruments. Criteria requiring a given percentage of assets, perhaps between 5 to 10 per cent maturing in the, say, next 7 to 10 days would probably add a welcome layer of protection for investors. Such requirement would in our opinion nicely balance the WAL limit set at 12 months for our single MMF type.

QUESTION 10: In relation to the proposed requirements regarding structured financial instruments, do you prefer Option 4A or Option 4B above?

We strongly think that Option 4B is undesirable from the point of view of investor protection. We argue that structured financial instruments are not to be demonised, much to the contrary, since when properly used, they offer a real diversification of credit risk, which is to the benefit of investor protection. Excluding structured finance would significantly reduce the

investment universe by excluding exposure to credit risk ultimately borne by private individuals (through consumer loans, mortgage loans, auto loans etc...) or SMEs and would result in risk concentration mostly on banks and a few large corporations.

A lot of structured finance bonds have certainly not been immune from the recent financial crisis, but at the same time a very large number of them (especially AAA-rated bonds backed by prime and granular European collateral or ABCP programmes backed by "real-economy" receivables) have retained solid inherent credit metrics all throughout the crisis, at a time when several banks defaulted and many others were saved by last ditch government intervention, which may or may not happen the next time.

Because structured finance entails some specific risks, fund management companies which use structured finance instruments should deploy the necessary resources to carry out their own analysis, and not solely rely on rating agencies. So we fully share the view expressed on this matter in Appendix 1, Option 1A. In addition, we think that the fund management companies should clearly mention in the KID (fund prospectus, etc...) the specific risks involved by structured finance, when the relevant funds make use of it.

As for the WAL calculation, we do not consider the legal final maturity should serve as reference. Rather, we favour the expected average life which is much more in line with the actual residual life of the relevant securities. Please refer to question 16 for a full discussion related to structured products and their WAL calculations, at the fund level or at individual instrument level.

QUESTION 11: In relation to currency exposure, do you think that short-term money market funds should limit the extent to which they invest in or are exposed to securities not denominated in their base currency?

We do not think that it would be in the interest of investors to set limits on the extent to which MMFs are exposed to securities not denominated in their base currency, be it either for short-term MMF or longer-term MMF. Indeed, the ability to invest in securities not denominated in the fund's base currency creates the possibility to diversify credit risk. This is because certain issuers, deemed as "high quality" and perceived as good by the fund manager, may not issue short-term debt in the fund's base currency, so investments in securities different from the fund's base currency are necessary in this case to obtain credit risk diversification. Thus we would regard limitations to exposure to securities not denominated in the fund's base currency as a potential increase in credit risk, by hindering issuer diversification.

As already outlined in Q9, we deem inappropriate for money market funds to take on first-order currency exposure to any degree. That implies perfect back-to-back currency hedge for each individual trade involving securities not denominated in the fund's base currency. This, in turn, implies the ability to use currency derivatives, such as swaps, without specific constraints, as long as they are used for pure hedging purposes.

As mentioned in Q9, the use of currency derivatives, such as swaps, creates second-order currency risk through the possible materialisation of counterparty risk (i.e. default of currency swap counterparty). Even if this second-order risk does exist, we do not think that it should be addressed by setting specific limitations on the extent to which the fund is exposed to securities not denominated in their base currency because second-order currency risk deriving from currency hedges is really counterparty risk and, as such, is already subject to constraints through counterparty risk limitations enshrined in domestic regulation of many countries, including France.

Finally, based on our experience, liquidity is not an issue for currency derivatives, such as currency swaps, since they benefit from a very liquid market for the major currencies, so the unwinding of currency hedges is expected to be smooth.

QUESTION12: In relation to the proposed requirements on ratings of instruments, do you prefer Option 1A or Option 1B above? In this context, do you believe that a money market instrument should be considered of high quality if the issuer of the instrument has been awarded the highest possible credit rating, even if the instrument itself has not been rated?

We prefer Option 1A rather than Option 1B as we think that very good issuers may not always seek a credit rating by an external agency, and so it makes sense not to exclude them on that sole ground. When a recognised rating agency has not rated a given issuer, then the fund management company should be able to grant on its own a credit rating for that issuer enabling to determine if the issuer is eligible or not.

Now, we think that the definition of "high quality" as "if it has been awarded the highest available rating by each recognised rating agency which has rated that instrument" is excessively strict as it would limit investments to either A-1+, P-1 or F1+, when using short-term ratings, or to AAA, when using long-term ratings. Firstly, such limitation would severely constrain credit risk diversification, as the investment universe of the money market is already very numbered. Second, Option 1A (as well as Option 1B, for that matter) creates a technical difficulty in case of "split rating": for example, is an A-1/P-1-rated instrument deemed of "high quality" (since P-1 is not the highest possible rating)? Third, it would give an enormous weight to credit rating agencies risk assessment, since the population is so limited. Giving so much weight to rating agencies may not be desirable: many events over the years, especially recently, have shown that their credit risk assessments may be grossly out of line with actual risks. In that respect, it is also certainly useful to remind that rating agencies disclaim any responsibility for their published credit ratings.

In order to overcome the three issues mentioned above, we would think it is much more appropriate to equate "high quality" with "investment-grade", as generally defined. Such definition would firstly allow much better risk diversification, a positive for investor protection. Second, the technical difficulty arising from split rating is much less acute as the rest of the population is large enough. Third, it would also provide more scope for fund managers to select issuers they deem of high quality based on their own research. In this approach, the role played by rating agencies is still important, as they still define the lowest acceptable limit, but they carry less weight overall, as the fund management company has greater leeway, which provides an incentive for fund management companies to pursue their own research effort. In the end, we thus think that a less restrictive, on the face of it, definition of "high quality" by retaining "investment-grade" would in fact be a better outcome for investor protection.

As for the question of issuer of the instrument as opposed to the instrument itself, our view is as follows: if the instrument itself is rated by one or more recognised rating agency, then that rating should be used. If the instrument itself is not rated, but the issuer is indeed rated, then the issuer rating may be used as long as the debt under review is a senior obligation of the issuer, as defined in the relevant prospectus.

Finally, we want to stress that all rules relating to credit ratings should apply at the time of purchase of the relevant instrument. If the rating subsequently migrates to below the acceptable limit, then a decision to liquidate or not the related investment should be based solely on investors' best interests. A systematic liquidation rule should be avoided as it could be against investors' best interests.

QUESTION13: Do you agree with the proposed criteria for the definition of longer-term money market funds?

Please refer to Q4, Q5, Q7, Q8, Q9 & Q10.

QUESTION 14: Do you have alternative suggestions?

Please refer to Q5.

QUESTION 15: Do you think that the proposed criteria adequately capture the risks attaching to such funds, in particular currency, interest-rate, credit and liquidity risk?

Please refer to Q9.

QUESTION 16: In particular:

- In relation to the WAL limit, do you consider that Option 1A (12 months) Option 1B (6 months) is appropriate? Should it be lower or higher?

We consider Option 1A (12 months) is much more appropriate. Please refer to Q9 "Credit Risk" for the rationale.

- Would you recommend taking structured financial instruments into account in the WAL calculation through their expected average life (excluding any option exercise or mechanism that cannot be triggered at the fund's sole discretion), or through their legal final maturity?

For the sake of clarity, we hereafter equate structured financial instruments to what is also often referred to Asset-Backed Securities or ABS.

Even though expected average life results from a modelling approach that is subject to error, we still recommend expected average life over legal final maturity for an MMF WAL calculation. When talking about granular collateral (several thousand receivables or more) and excluding the option exercise or mechanism that cannot be triggered at the fund's sole discretion, for the senior tranches, it is a certainty that expected maturity will almost always be very much closer to the actual maturity than the legal maturity. True, the realised maturity, the realised amortisation schedule through time (for pass-through bonds) and thus the realised average life, may turn out in the end to be longer (or shorter) than the initial modelling of the expected average life at the time of the purchase of the bond, but still the expected average life will have been much closer to the bond actual weighted average life, than its legal final maturity.

Taking the legal final maturity as opposed to the expected average life would undoubtedly be the most prudent choice when talking only about maturity. It would, however, overlook the fact that the legal maturity refers to a purely legal concept, whereby, in most cases, the maturity of an asset-backed bond may not fall before the maturity of the single longest asset that serves as collateral for that bond. The fact of the matter is that the legal maturity is not an economic concept and as such it would seem far-fetched to use this date in order to calculate the WAL of the bond.

Using the legal final maturity would probably also result in excluding most asset-backed bonds from the realm of money market funds, because the legal final maturity may be up to decades away. We argue that such an outcome is highly undesirable because it would deprive MMFs from instruments that possess very solid inherent credit metrics and many positive features which lack on classic issuers (banks & corporate issuers), such as lack of event risk, automatic deleveraging, automatic triggers in case of adverse events, all to the benefit of investors' protection.

The expected average life, on the other hand, is an economic concept based on realistic scenarios as to the pace at which the receivables that underlie the bond will be paid back. Expected average life also does serve as yardstick for all calculations by market practitioners and is available via the financial data systems used by them.

For all these reasons, we are of the opinion that using the expected average life is a much better option.

More generally speaking, we want to point out that any option exercise or mechanism that can be triggered at the fund's sole discretion (such as investor "puts") must be taken into account at its nearest exercise date when calculating the instrument's residual maturity, be it for an asset-backed bond or a "classic" bond.

- Do you consider that the WAM limit of 6 months is appropriate? Should it be lower or higher? Can this criterion be expressed in terms of interest-rate sensitivity (corresponding limit set at 0.5)?

As we favour a single MMF approach (as opposed to two-tier approach), please refer to Q9 "Interest rate risk" (where we favoured setting a limit at 90 days, or 3 months, for the WAM which we deem coherent for a money-market fund).

- In relation to investment in securities, do you believe that investment of up to 10 per cent of assets in floating rate securities with a legal maturity or residual maturity of more than 2 years would be appropriate, provided that the time remaining until the next interest rate reset date is less than 397 days?

We consider that investments on securities of residual maturity (or expected average life for structured finance) of more than 2 years are NOT consistent with the level of credit spread risk deemed appropriate for an MMF. As per Q9 "Credit risk", we are in favour of investing for up to 10% of the assets of the money market fund on maturities between 1 year and 2 years, but not beyond, as part of the single type MMF framework we propose.

QUESTION 17: In relation to currency exposure, do you think that longer-term money market funds should limit the extent to which they invest in or are exposed to securities not denominated in their base currency?

Please refer to Q11.

QUESTION 18: Do you think that longer-term money market funds should have the ability to invest in lower-rated securities?

Please refer to Q12.

QUESTION 19: Do you consider that a longer-term money market fund should have the ability to have a constant NAV?

As per our understanding, constant NAV purports an accounting method based purely on amortization (or historical cost). It is obvious that the longer the maturity of the fund, the more this accounting method creates risks for investors that they buy shares at an artificially high price and/or that they suffer a sudden gap downwards in the value of their shares, in case of forced selling of securities or default of an issuer. Therefore, we think that the constant NAV mechanism cannot be discussed upon independently from the accounting methods and standards that are to apply to European MMFs.

More generally, as we stated in Q2, we want to raise the issue that a common European definition of MMFs, which would have a regulatory power, needs corresponding uniform accounting rules. For constant NAV, as certainly for many other issues, if common European accounting rules for MMFs were not to be implemented at the same time as the new proposed definition of MMFs, competition distortions would necessarily appear which would also probably generate increased risk for investors.

31st December 2009