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| 24 May 2017 |

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| Reply form for the Consultation Paper on Draft technical advice, implementing technical standards and guidelines under the MMF Regulation  |
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| Date: 24 May 2017 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in Consultation Paper on Draft technical advice, implementing technical standards and guidelines under the MMF Regulation (MMF), published on the ESMA website.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
* do not remove the tags of type <ESMA\_QUESTION\_MMF\_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* contain a clear rationale, including on any related costs and benefits; and
* describe any alternatives that ESMA should consider

**Naming protocol**

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA\_MMF\_NAMEOFCOMPANY\_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA\_MMF\_XXXX\_REPLYFORM or

ESMA\_MMF\_XXXX\_ANNEX1

***Deadline***

Responses must reach us by **7 August 2017.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input/Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | EFAMA |
| Activity | Investment Services |
| Are you representing an association? |[x]
| Country/Region | Belgium |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMF\_1>

*General comments*

The European Fund and Asset Management Federation (EFAMA) is pleased to have the opportunity to answer to ESMA’s consultation paper “on draft technical advice, implementing technical standards, and guidelines under the MMFR”.

EFAMA is the representative association for the European investment management industry through its 28 member associations and 62 corporate members. We represent EUR 23 trillion in assets under management of which EUR 14.1 trillion managed by 58,400 investment funds at end 2016. 30,600 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds, with the remaining 27,800 funds being AIFs (Alternative Investment Funds).

We summarise below our general views on different topics covered in ESMA’s consultation as well as our remarks on the dates of application of the reporting template and the guidelines. At the outset, we would like to stress that the new requirements should not go beyond what is specified in the MMF Regulation. We also consider that, references to either banking regulation or US regulation should be avoided, given the differences between the business model and market practices of banks and MMFs and between US and European Union MMFs.

*Reverse Repos*

* We welcome ESMA’s choice to consider the collateral as a second step defence. The first level of risk should indeed be linked to the quality of the counterparty.
* Insurance companies and pension funds that fall under EU sectoral legislation (or equivalent) should be considered as being high-quality counterparties in the same manner as credit institutions regulated by EU or equivalent legislation.
* We recommend that there is flexibility given to the manager to determine the haircut policy taking into account the credit quality of the counterparty and the quality/maturity of the collateral received. This is particularly important in order to ensure that MMMFs are not placed at a competitive disadvantage when engaging in reverse repo transactions. The flexibility left to MMF managers to negotiate an appropriate level of haircut would not prevent some managers who would like to apply recognised standardisation from doing so.

*Reporting Template*

* The reporting template should be finalized on the basis of what is specifically asked for in the MMFR. From this perspective, we consider that the reporting template proposed by ESMA is too much based on the AIFMD Annex IV reporting template, which has been developed to capture a very broad universe of funds.
* This approach would impose new onerous obligations to most MMFs because the vast majority of MMFs are UCITS. Furthermore, as noted by ESMA, the list of information to be provided by managers that is explicitly mentioned in the MMF Regulation differs, to a large extent, from the one in the AIMFD.
* More generally, fund managers should ideally be allowed to report information on their funds on the basis of a single template. The fact that, in addition to the data already provided to NCAs, the ECB and ESMA, they will be obliged to report information on their MMFs using a different reporting template will add costs, without evidence that the vast amount of data collected can be processed in a way that would contribute to enhance investor protection and/or financial stability.

*Credit quality assessment*

* The technical advice should not be prescriptive but be “principle-based”. This would allow MMF managers to comply with the requirements by adapting their existing procedures rather than by developing new processes from scratch. In addition, small asset managers should benefit from more flexible rules in line with the principle of proportionality.
* Although some MMF managers may decide to use CRAs as part of their assessment process, ESMA’s advice should not impose any obligation to integrate CRAs ratings in the MMFs’ credit assessment processes. This point is essential to avoid creating a new form of dependency to external credit ratings.
* Along the same line, we consider that the advice should not introduce an obligation to develop a credit quality assessment based on a “scale of credit rating”.

*Guidelines on stress testing*

* EFAMA believes that the stress test tool should be applied with the aim of checking potential vulnerabilities of a fund, in a context that would limit governance and IT costs. The key variables that are relevant are spreads, redemptions, liquidity and interest rates.
* For this reason, we believe that the guidelines should be developed for illustrative purpose and not to impose “minimum requirements”.
* More generally, we strongly recommend to adopt a principle-based approach for stress testing that considers only relevant factors for MMFs and takes into consideration existing practices on stress testing where these are already in place.

*Dates of application*

* Regarding the date of application of the reporting template, ESMA mentions (paragraph 42(c) on page 13) that managers should start sending the quarterly reports mentioned in Article 37 by October/November 2019 while, according to the MMFR, the reporting requirements would apply as of 21 July 2018. It should be therefore clarified how managers should proceed for the reporting periods between July 2018 and November 2019.
* Regarding the date of application of the draft guidelines on stress test mentioned on page 151, it should be amended to refer to the same timelines as those specified in the MMFR. The MMFR applies 12 months after entry into force to new funds and 18 months after entry into force to existing funds. These two deadlines should be taken into account by ESMA’s guidelines.
* Given the tight deadlines for the industry to provide thorough analysis and feedback to ESMA’s consultation, we ask that ESMA remains open to considering additional comments provided after the deadline of 7 August, in particular on the guidelines and on the reporting template.

<ESMA\_COMMENT\_MMF\_1>

1. : Do you agree that the abovementioned references to EU/US standards are relevant in the context of the issuance by ESMA of technical advice on quantitative and qualitative liquidity and credit quality requirements applicable to assets received as part of a reverse repurchase agreement in the context of the MMF Regulation? Do you identify other pieces of national/EU/International law that would be relevant in view of the work on this part of the advice?

<ESMA\_QUESTION\_MMF\_1>

We appreciate the exhaustive work that ESMA has performed. We do not identify other pieces of regulation relevant to the work concerning this part of the advice.

If we agree that the abovementioned references to EU standards are relevant in the context of the technical advice on the liquidity and credit quality requirements applicable to the assets received as part of a reverse repurchase agreement in the context of Article 15(6) of the MMF Regulation, we caution against taking for granted that the US regulatory context could be a good reference to take into account.

Indeed, even if we understand the intellectual merits of mentioning the US regulation and market practices in the mapping exercise, we deem highly relevant to acknowledge the many differences between the European and US markets. Hence, Level 2 measures supplementing the MMFR should reflect market practices in Europe and be relevant in the particular context of this market.

We understand that ESMA wishes to take into account the analysis undertaken by EBA but we would like to stress that MMFs and banks are managed in a very different way.

We would also hope that ESMA takes into account the existing MMF Guidelines (CESR/10-049) to the extent that they are still relevant, as many managers will adjust to the MMFR requirements in light of their current business practices which are heavily influenced by the MMF Guidelines.

Lastly, we agree that EMIR and MIFID references are market oriented and are only interesting examples for the discussion and not models to duplicate in MMFR.

<ESMA\_QUESTION\_MMF\_1>

1. : Which of the options described above regarding credit quality and liquidity requirements would you favour?

<ESMA\_QUESTION\_MMF\_2>

Option a) is the best option for the credit quality requirements referring to the assets in Article 15 (6)(a) in the MMFR, as referred to in paragraph 93 on page 25 of the ESMA consultation.

Option a) is the best option for the liquidity requirements referring to the assets in Article 15 (6)(a) and 15(6)(b) in the MMFR, as referred to in paragraph 94 on pages 26 and 27 of the ESMA consultation. We would, however, like to propose amendments to the haircut policy in option a) for the liquidity requirements (see our response to Q3).

Regarding the merits of option a) on liquidity requirements we see a number of reasons to support this option:

* It enables to deal with quality/regulated counterparties, which is important from a market stability standpoint.
* It considers that the primary risk in a Reverse Repo lies with the counterparty and that collateral comes only after.
* It focuses on the capacity of the MMF to enforce its rights in case of default of the counterparty.
* It reinforces the internal consistency of the MMFR since it considers that the criteria that make an asset eligible as an investment in a MMF are satisfactory for the eligibility as a receivable in a reverse repo. It foresees that reverse repo transacted with other entities than regulated financial ones should be subject to overcollateralization through a proportionate haircut policy.

<ESMA\_QUESTION\_MMF\_2>

1. : With respect to option a), do you think the haircut policy should be determined as suggested, or should there be more flexibility given to the manager on this determination? Do you think that the decision of equivalence vis a vis third countries mentioned in this option should relate to the one mentioned in Article 114 (107 in the case of credit institutions) of CRR?

<ESMA\_QUESTION\_MMF\_3>

Regarding the haircut policy proposed by ESMA in option a) of the liquidity requirements and described in Article 4 on page 98, EFAMA considers that the haircuts to be applied to reverse repo agreements should be determined by the asset manager based on the credit assessment of both the counterparty and the underlying collateral, which can be the specific securities in a bilateral reverse repo structure or the “collateral set” in a tri-party reverse repo structure.

Under the MMFR, the asset manager is now required to perform an internal credit assessment on all items preceding an investment by the MMF. Following this assessment, the manager will be best placed to determine a suitable haircut for reverse repo collateral to reflect the risk being taken by the MMF.

It is of utmost importance that MMFs are not disadvantaged relative to other users of reverse repo. Standardised haircuts withdraw any flexibility of the manager to adapt the haircut in accordance with market conditions, in a timely manner. Whilst pre-set haircuts could have made sense when they were established, this can no longer be the case under new market circumstances.

In our view, the manager should be allowed to set an appropriate haircut in order to mitigate against the risk of loss. We propose the haircut framework to be used by MMF managers takes into account different factors, especially the exposure to counterparty in relation to the MMF assets and the length of the agreement.

Regarding the exposure to counterparty in relation to the MMF assets, we propose that small counterparty exposures should not be subject to a mandatory haircut given that the MMF could trade an unsecured position such as commercial paper, deposits, or general debt obligation (with no collateral).

Regarding the haircut applied to collateral of overnight deals, we would not expect such haircuts to be established at the same level as those applied to contracts of a longer tenor.

Leaving greater discretion to the manager in these situations (low exposure, short tenors) would allow asset managers to apply appropriate haircuts for collateral in reverse repos under their broader collateralisation for OTC financial derivative transactions and would facilitate the use of efficient portfolio management techniques. Notably, EMIR requirements on risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty also apply to MMFs.

We would also like to highlight the following points in relation to ESMA’s proposal to follow standardised haircuts:

* The proposed standardised haircut table includes ineligible asset classes (corporate bonds, covered bonds, equities, gold) that would not be allowed as collateral in a reverse repo transaction entered into by a MMF.
* The ESRB opinion to ESMA under Article 29 of the SFTR ([*https://www.esrb.europa.eu/pub/pdf/other/20161004\_esrbopinion.en.pdf?eb4c21d49897bfc6f7036b502eb631c2*](https://www.esrb.europa.eu/pub/pdf/other/20161004_esrbopinion.en.pdf?eb4c21d49897bfc6f7036b502eb631c2)) also suggests that government securities should not be subject to mandatory standardised haircuts.
* We agree that haircuts should be frequently monitored and assessed and adjusted, as required, by the manager in order to mitigate against market risks.
* The flexibility left to MMF managers to negotiate an appropriate level of haircuts would not prevent some managers who would like to apply recognized standardized haircuts from doing so.

In light of our comments we have some suggestions regarding the draft of Articles 3 and 4, beginning on page 97.

Concerning Tri-party reverse repo agreements, we would like to note that the actual collateral is not known until the end of the day. The counterparty simply provides collateral to the appropriate level based on a pre-agreed schedule that sets out permitted collateral types and haircuts for each. In the case of business-to-business platform arrangements the identity of the counterparty would not be immediately known by the manager and therefore it would not be known if they were a credit institution/MiFID firm. Therefore, the required level of collateralisation under Article 4(1) would not be fully known at the time of the transaction and would thus need to be amended after the fact.

Regarding the counterparties that should be deemed as being of high quality, EFAMA suggests that other financial entities subject to EU regulation be also included. We refer, notably, to pension funds that fall under the Directive 2016/2341/EU (IORP II) and insurance undertakings that fall under the Directive 2009/138/EC (Solvency II).

Both types of financial institutions play a relevant role in repurchase and reverse repurchase agreements. The prudential regimes they are subject to should be considered an equivalent to that applying to credit institutions. Therefore, pension funds and insurance undertakings complying with the relevant EU legislation or equivalent third country legislation should be considered high quality counterparties in the scope of Article 3 (page 97).

* Against this background, we suggest to amend Article 3 and 4 as follows:

Article 3

“If the counterparty to the reverse repurchase agreement is a credit institution ***~~or~~***, an investment firm, ***an insurance undertaking, or an institution for occupational retirement provision*** under the applicable Union law or a regulation deemed equivalent under the Union law (…)”.

Article 4

1. If the counterparty of the reverse repurchase agreement ***is not one of the entities referred to in Article 3*** **~~is not regulated as a credit institution or an investment firm under the applicable Union law or a regulation deemed equivalent under the Union law~~** and in order to ensure sufficient overcollateralization of the reverse repurchase agreement, additional liquidity requirements shall apply depending on such factors as (…).
2. The MMF manager shall set an appropriate haircut, taking into account the abovementioned factors and, in particular, the level of exposure to the counterparty and the length of the contracts.
3. Such haircut, if applicable, shall be revised on a regular basis ***by the MMF manager.***

<ESMA\_QUESTION\_MMF\_3>

1. : With respect to option b) on liquidity requirements, do you think that requiring assets convertible to cash in one business day or less is appropriate? Do you think this requirement should be more detailed and refer to trade date or settlement date, for example? With respect to that same option b), how do you think that the criteria mentioned in this option could be defined in more detail, and how could quantitative indicators be introduced? Do you think all the criteria mentioned in Article 2(3) of this option b) are relevant? Under this option, when the liquidity assessment of the manager is that the assets would no longer be liquid assets, the manager shall take immediately any appropriate action including the replacement of the collateral with another asset that would be qualified as liquid assets. Do you think that the replacement of the collateral could be carried out overnight?

<ESMA\_QUESTION\_MMF\_4>

As we mentioned in our answer to question 2, our favoured option is a).

There are a number of reasons why we do not favour option b). Specifying the number of days is not appropriate as it does not reflect the functioning of the market or each fund. In addition, the MMF will only exercise its ownership rights of the collateral when the counterparty defaults. Given that the reverse repos that are used by MMFs are often overnight and counterparties will have had a favourable assessment, the event of them defaulting overnight is highly improbable.

Therefore, the only trigger for a default of a reverse repo counterparty we may reasonably foresee is in case there is a stress in the market with a considerable systemic risk dimension.

Below we provide comments to the specific topics raised in question 4.

On cash conversion

In option b), ESMA provides that assets will only be liquid if they are “convertible to cash in one business day or less without the conversion to cash having impact on the market value of the investment other than marginal one”. This may be considered overly restrictive and simplistic. It is restrictive because assets are still considered liquid if it takes, for example, three to five business days to convert them into cash. It is simplistic because “convert to cash” is not a precise term as to whether it refers to the trade date or settlement date.

The settlement period for securities traded on secondary markets is generally at “T+2” (trade date plus two business days). The settlement date of assets is a consequence of the trade date. Therefore, asking that assets be convertible to cash in one business day or less is unrealistic due to market conventions for settlement.

The “one business day” requirement is difficult to assess in the specific case of default of a counterparty. In such scenario it must be expected that market conditions will not be totally stable. We believe that it is too short a period to take hold of and liquidate collateral. The determination of the date and time at which the default is confirmed and the MMF manager is allowed to liquidate the position without opposition by the depositor is unclear. Thus, the starting point of the one-day delay is uncertain. Furthermore, since asset managers typically choose counterparties of high quality, one must expect some turmoil at the announcement of the default of one of the leading market participants. An immediate fire-sale may not be in the best interests of investors.

Therefore, the proposed one-day requirement could be counterproductive since it is unclear from when the delay starts and it could hurt the interest of the final investors. In addition, we question whether it would even be possible to fulfil the further requirement of “marginal impact on the market value” of the assets.

On the criteria for the assessment of the liquidity of the assets

We would like to provide ESMA with specific comments to the option b) in the draft technical advice:

* Article 2(1) of option b) should be clarified as the language is very confusing to follow.
* The list of indicators included in Article 2(3) of option b) would be unworkable for most repo investors, especially on a continuous basis.
* Referring to Article 2(7) of option b) it is important to note that typically you would need an event of default from the counterparty before you could sell the collateral.

Operationally, option b introduces an incompatibility as it would ask asset managers to assess the criteria such as volumes on a daily basis whereas reverse repos are contractually entered into.

On the replacement of collateral

The notion of “immediate replacement of collateral” does not reflect operational practice. Should a circumstance arise where the collateral provided is no longer considered suitable, asset managers will normally recall the reverse repo operation rather than operating a replacement of collateral, which in any case is contractually defined.

The requirement to replace collateral overnight is not appropriate for all types of reverse repos. If direct bilateral reverse repo contracts are used between a MMF and a financial counterparty, the standard practice will be to call and reset deals with a change in the list of eligible collateral. It implies that the call delay will be respected and the replacement will effectively take place 2 or 3 days after the classification as illiquid asset.

<ESMA\_QUESTION\_MMF\_4>

1. : What would be in your view the consequences in terms of costs of the chosen option, and of the other options mentioned above? Do you agree with reasoning mention in the CBA (annex III) in relation to the possible costs and benefits of the options as regards the abovementioned credit quality and liquidity requirements? Which other costs or benefits would you consider in this context?

<ESMA\_QUESTION\_MMF\_5>

In terms of cost analysis, we disagree with ESMA’s CBA, as our members foresee operational difficulties with the daily monitoring of all the criteria listed in Article 2(3) of option b (page 99), knowing that the benefit of such an approach is totally marginal with regards to the objective assigned.

In terms of benefit analysis, we think that option b) on the liquidity requirements offers poor protection to investors compared to option a) which focuses on the central question of the quality of the counterparty and incentivises the choice of regulated entities.

<ESMA\_QUESTION\_MMF\_5>

1. : Do you agree that the abovementioned references to EU and US standards are relevant in the context of the issuance by ESMA of technical advice on credit quality assessment under the requirements of the MMF Regulation? Do you identify other pieces of national/EU/International law that would be relevant in view of the work on ESMA technical advice on credit quality assessment under the requirements of the MMF Regulation?

<ESMA\_QUESTION\_MMF\_6>

As a general comment we would like to indicate that it would be helpful to include a reference to the IOSCO report on reducing reliance on CRAs in the asset management (https://www.iosco.org/library/pubdocs/pdf/IOSCOPD488.pdf) and the Directive 2013/14/EU (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0014&from=EN). The MMFR requires explicitly that these established standards should be considered (please refer to recital 32 of the MMFR).

Also at the beginning of this advice there should be a reference for the Articles that relate to the delegated act referred to in Article 22(a) relating to Article 19(3), Article 22(b) relating to Article 20(2)(a), Article 22(c) relating to Article 20(2)(b), and Article 22(d) relating to Article 19(4)(d), as applicable.

EFAMA takes the references made by ESMA to existing frameworks as interesting background information relevant to the analysis, but not as an indication of applicability for the purpose of ESMA’s technical advice.

Although the references to EU and US standards are interesting to consider, they are not directly applicable in the case of MMFR. In our view, the most relevant regulation is the technical advice published by ESMA on reducing sole and mechanistic reliance on external credit ratings (2015/1471). We consider that referring to CRA to estimate the quality of the methodology of the internal credit assessment process of a MMF would be disproportionate, since asset managers are assessing credit quality for the purpose of portfolio investment decisions only. Furthermore, the requirement in the CRA regulation is that the methodology be rigorous, systematic and continuous whereas the MMFR refers to a “prudent” methodology”, which evidences that the purpose is different. In CRD, we consider the flexibility that ‘overrides’ allow to be an interesting feature. When considering SEC requirements, we do not find them explicit enough to be helpful.

Therefore, we believe that references to CRA are suitable with the aim to set a proportionate and principle based approach. Indeed, credit quality assessment for fund managers helps ultimately to build ‘buy/no buy’ lists. Ranking may be of use as an intermediary step depending on the asset managers’ analysis department organisation, but it should not be a prerequisite. The objective of the assessment for asset managers is to contribute to investment decisions, which is different from a ranking within a CRA or an analysis of credit risk in a banking institution.

<ESMA\_QUESTION\_MMF\_6>

1. : Do you agree with the proposed option on each of the requirements mentioned in Article 22 of the MMF Regulation? If not, could you specify which existing regulatory framework would you suggest as a basis for the work on the technical advice related to Article 22 of the MMF Regulation?

<ESMA\_QUESTION\_MMF\_7>

Regarding the wording of the draft technical advice under Article 22, we present our comments and redrafting suggestions below.

Article 22 (a) on the methodology

As a first general comment referring to the content of the delegated act under Article 22 (a), it is our understanding that ESMA’s draft technical advice seems to go beyond what is requested in Level-1. Article 22(a) of the MMFR only requires supplementing the MMFR by specifying “the criteria for the validation of the credit quality assessment methodology” and it does not make any reference to criteria to define prudent, systematic and continuous assessment methodologies.

In order to ensure the alignment of ESMA’s technical advice with the requirements stipulated in Level-1, we would like to make the following drafting suggestions:

* First, we recommend replacing Article 1 (1) with the actual text of Article 19(3) of the MMFR in order to align the content of the technical advice to Article 22(a) with Level-1.
* Second, we invite ESMA to consider the deletion of Articles 2, 3, and 4 as they go beyond what is being requested in Article 22(a) in the MMFR.

This said, we express below specific comments to the Articles from ESMA’s technical advice to Article 22(a) of the MMFR.

Article 1(4) refers to cases where limited quantitative evidence is available, so in this case it would be clearer if the reference to “relevant quantitative criteria” was deleted.

* Therefore, we propose the following wording to Article 1 on page 100:

Article 1(4)(b) Ensure that the credit quality assessment methodology is supported by sufficient **~~relevant quantitative and~~** qualitative criteria;

In Article 2(b) we propose to delete “all” to read “Incorporate factors deemed relevant”.

We strongly disagree with ESMA’s reference to a “scale of credit rating” in Article 3 (page 101). First, the MMFR does not refer to such a scale. Second, the reasons that brought the MMFR not to ask for a scale are linked to the specificities of credit assessment in the context of asset management. We are convinced that the diversity of internal processes should prevail. Putting in place a process specific to MMFs is not cost effective with little, if any, corresponding benefits.

Proportionality should be included when addressing the validation of the methodology under MMFR. As mentioned, the MMFR has a less stringent requirement than CRA, since “prudent” (MMFR) is of a different nature of “rigorous” (CRAR). Typically, where CRA imposes rules, the MMFR should express suggestions and the same criteria should not be mandatory but illustrative.

* Therefore, we propose the following wording to Article 3 on page 101:

Article 3 (3) The manager of a MMF shall use a***n appropriate*** credit quality assessment methodology which ex-ante identifies the situations where the assessment is deemed to be favourable.

Article 22 (b) on quantitative criteria

Article 1(c) on page 102 refers to the default statistics relating to the issuer or instrument. An issuer's default statistics would almost always be zero as although some issuers may be restructured and live to fail again this would be unusual.

Article 22 (c) on qualitative criteria

We strongly believe that the criteria mentioned in Article 2 should be considered as indicative, and our understanding is that the words “such as” suggests that ESMA agrees with this interpretation.

We have three particular comments on Article 2 on page 102.

First, as this Article refers to qualitative indicators of the issuer, all references to “instruments” should be deleted. Article 22(c) of the MMFR empowers the Commission to adopt a Delegated Act specifying “the criteria for establishing qualitative indicators on the issuer of the instrument” in which the MMF invests. Since the mandate refers to “issuer” rather than “instruments”, all references to instruments in Article 2 in the draft technical advice (pages 102-103) should be deleted to be aligned with L1.

Second, we would like to suggest to delete (d) from Article 2 and include it in Article 1 as (f). While Article 2 only refers to qualitative criteria for the issuer, Article 1 refers to quantitative criteria for the issuer and instrument. For this reason, we find it more coherent to have a reference to the possibility to use the analysis of credit ratings or rating outlooks by the manager of an MMF in Article 1 rather than in Article 2. Additionally, while we agree there should be no over-reliance on external ratings, managers should be able to choose to use ratings as one of the possible criteria to quantify the credit quality of issuers and instruments. Importantly, our suggestion is based on the understanding that the criteria described in Article 1 (page 102) is a descriptive list rather than a mandatory list of criteria to be used by the manager.

Third, in Article 2 (b) the reference to the “degree of volume and liquidity” should be deleted. Again, it should be noted that Article 2 refers to qualitative criteria to assess the credit quality of the issuer (as per Article 22 (c) of the MMFR), not the instrument. The credit quality of a specific issuer is independent of the “degree of volume and liquidity of relevant markets”.

* Therefore, we propose the following wording to Article 2 on page 103:

In order to establish qualitative indicators of the credit risk of an issuer ~~or instrument~~ (…)

(b) Analysis of the relevant market(s)~~, including the degree of volume and liquidity~~;

(c) ***deleted***

(d) deleted [to be added in Article 1 as (f)]

In Article 3, we propose to clarify the scope of this Article in the first sentence. There are no qualitative requirements applicable to the assessment of the instruments in the MMFR. Additionally, in Article 22(c) of the MMFR, the Commission is not mandated to issue any qualitative criteria in respect to the instrument, mentioning only the qualitative criteria of the issuer. Additionally, we also suggest to make a clearer reference to the issuer or guarantor (as applicable) in Article 3 (a) and 3 (b).

* Therefore, we propose the following wording to Article 3 on page 103:

In referring to both quantitative and qualitative criteria for establishing the credit quality of an issue and/or ***the quantitative criteria for establishing the credit quality of the*** instrument the manager of a MMF shall assess (…)

(a) Financial condition **of the issuer or the guarantor, as applicable**;

(b) Sources of liquidity **of the issuer or the guarantor, as applicable**;

Article 22 (d) on material change

We suggest taking a principle-based approach and leaving the appropriate discretion to managers to determine the quantitative/qualitative meaning of material change of the criteria used, along with a principle-based approach for the credit quality assessment. In fact, even if asset managers in their internal assessments (in line with L1 and proposed L2) would choose the same criteria, the driving factors that influence creditworthiness could be different.

The “material change” definition must be specific to the issuer or at least should refer to criteria that have been specifically considered at the time the credit assessment was performed. For instance, changes in the macro environment can be deemed material but are not specific to an issuer. They might influence the credit assessment though. In other words, an interest rate rise should not lead to a re-performance of every credit assessment on each security in the considered portfolio. Such nuance in the approach and implied requirements would be welcome.

We present below our suggestions to amend Article 5 (page 104-105).

The examples in Article 5 (2) should be deleted. There should only be a reference to the criteria already mentioned in the previous Articles 1 to 3 of the draft technical advice. Otherwise, Article 5 would add some new requirements to those previously mentioned on how to assess credit quality. In general, we welcome the flexibility that is given to perform the assessment of ‘material change’.

Along the same line, it would also be useful to amend the last sentence of Article 5(2) on page 104. In our view, the words “including” and “such as those which are referred to in Articles 1 to 3” should be deleted.

Furthermore, Article 5 (2) bullet point 3 refers to the “default statistics relating to the issuer or instrument”. An issuer's default statistics would almost always be zero as although some issuers may be restructured and live to fail again this would be unusual.

* Therefore, we propose the following amendments to Article 5 (2):

*2. The material change that could have an impact on the existing assessment of the instrument may relate to all the* ***relevant*** *criteria that the manager of the MMF takes into account in its credit quality assessment methodology* ***~~including those which are referred to in Articles 1 to 3, such as:~~***

* ***~~Bond pricing information, including credit spreads and pricing of comparable fixed income instruments and related securities;~~***
* ***~~Credit default-swap pricing information, including credit default-swap spreads for comparable instruments;~~***
* ***~~Default statistics relating to the issuer or instrument;~~***
* ***~~Financial indices relevant to the geographic location, industry sector or asset class of the issuer or instrument;~~***
* ***~~Analysis of underlying assets (particularly for structured finance instruments);~~***
* ***~~Analysis of the relevant market(s), including the degree of volume and liquidity;~~***
* ***~~Analysis of the structural aspects of the relevant instruments;~~***
* ***~~Securities-related research;~~***
* ***~~Financial condition of the issuer;~~***
* ***~~Sources of liquidity of the issuer;~~***
* ***~~Ability of the issuer to react to future market-wide or issuer specific events including ability to repay debt in a highly adverse situation;~~***
* ***~~Strength of the issuer’s industry within the economy relative to economic trends and the issuer’s competitive positon in its industry;~~***
* ***~~Analysis of the credit ratings69 or rating outlooks70 assigned to the issuer or instrument by such credit rating agency/ies selected by the manager of the MMF as suited to the specific investment portfolio of the MMF.~~***

We disagree with the reference in Article 5(3) on page 105 to the risk factors in the stress test scenarios in Article 28. Referring to the general risk factors of the stress scenario may not always be appropriate. First, stress-scenarios are made at portfolio level and not at issuer/instrument level. Second, stress-scenarios would take into account different factors which would not necessarily be strictly related to the credit quality of a specific issuer and/or instrument. As an example, one could consider the level of redemptions or the liquidity of the portfolio assets. Nevertheless, a clarification of the approach of the meaning of “material change” linked to the stress scenario would be appreciated.

* Therefore, we propose the following amendments to Article 5 (3):

*3. What should be meant by ‘material change’ for these different criteria shall* ***relate*** *in particular, ~~for~~* ***to*** *the relevant quantitative or qualitative different criteria* ***used by the manager of the MMF in its credit quality assessment. To that end, the manager of a MMF could take into account, where relevant,*** *the risk factors of the stress test scenarios, including those referred to in Article 28 of the MMF Regulation.*

It is our understanding that Article 5(4) does not introduce any obligation to integrate CRAs ratings in the MMFs’ assessment processes. This point is essential for the effectiveness of reducing the credit rating mechanistic dependency. All Articles in MMFR are totally free of such an obligation as the legislator did not intend to introduce it. The only reference to CRAs is found in recital 31 which mentions the downgrade by a CRA in the context of the material change if the manager chooses to take that CRA into account (if any). We believe this reference does not constitute a sufficient legal basis to impose any sort of obligation to integrate CRAs ratings in the MMFs’ assessment processes. We thus urge ESMA to clarify this point by highlighting that the decision whether or not to rely on one or several CRAs should be left to the asset manager.

When an MMF manager decides to rely on CRA ratings, the use and the number of CRAs should be determined by the fund’s management. It should be clarified that the monitoring process be limited to downgrades of the CRA the MMF manager may have decided to use in its credit quality assessment. Otherwise, the monitoring process would require the MMF to monitor all downgrades of any CRA. As the MMF manager can only get this information for a fee, any requirements at this level should be set in a manner that no further expense or costs for rating data (defined as the rating and the corresponding identification of the rated object) are incurred.

* Therefore, we propose the following amendments to Article 5 (4):

*4.* ***In case an asset manager decides to use* *~~With respect to the criterion on the analysis of~~*** *the credit ratings or rating outlooks assigned to the issuer or instrument,* ***as a complement to their own assessment of the quality of eligible assets,*** *this material change should also relate to the downgrade of a money market instrument, securitisation or ABCP below the two highest short-term credit ratings provided by any credit rating agency regulated and certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council. To that end, the manager of a MMF should be able to establish an internal procedure for the selection of credit rating agencies suited to the specific investment portfolio of the MMF and for determining the frequency at which the MMF should monitor the ratings of those agencies. However the extent to which the corresponding new assessment mentioned in paragraph 1 would imply that the assessment in itself of the credit quality of the asset is modified will depend on the other abovementioned criteria that the manager of the MMF takes into account in its credit quality assessment methodology. The abovementioned downgrading should indeed be balanced against these other abovementioned criteria that the manager of the MMF takes into account in its credit quality assessment methodology.*

<ESMA\_QUESTION\_MMF\_7>

1. : In your view, what would be the consequences (including operational ones) of the level of detail and prescription suggested above in the proposed technical advice on credit quality assessment under the MMF Regulation (which would be broadly similar as in the delegated Regulation on the assessment of compliance of credit rating methodologies (447/2012), and in the technical advice on reducing sole and mechanistic reliance on external credit ratings (2015/1471))?

<ESMA\_QUESTION\_MMF\_8>

EFAMA agrees with ESMA’s remark that standardised prescriptive regulation leads to uniformity of behaviour, which consequently could increase systemic risk. At the same time, we consider that diversity must be preserved as it enlarges the services offer to investors and creates different types of interests in the markets.

For these reasons, the technical advice on credit quality assessment should not be prescriptive. We believe that what is a requirement under CRA should be a recommendation or the illustration of a good practice under MMFR.

Also, ESMA’s technical advice should make a reference to the principle of proportionality under which small asset managers would benefit from more flexible rules regarding the credit quality assessment.

Apart from the redrafting proposals mentioned in the previous answer, EFAMA believes ESMA performed a valuable exercise by avoiding being too prescriptive, which would have reduced the diversity of internal models thus increasing the possibility of systemic risk.

Notably, credit analysis plays a key role in the management of investment funds. The success in anticipating the evolution of the credit quality of an issuer is a major component in the creation of performance and is an important element of the reputation of an asset manager.

The difference of views from market participants is a key pillar of the functioning of financial markets. Therefore, it is highly important to preserve the diversity of views between MMF managers for the same issuer.

<ESMA\_QUESTION\_MMF\_8>

1. : What would be in your view the consequences in terms of costs of the chosen options described above in relation to the requirements included in the technical advice under Article 22 of the MMF Regulation? Do you agree with the assessment of costs and benefits mentioned in the CBA (annex III) on the technical advice under Article 22 of the MMF Regulation? If not, please explain why and provide any available quantitative data that the proposal would imply.

<ESMA\_QUESTION\_MMF\_9>

We do not anticipate major costs to firms that have developed internal expertise on credit analysis.

This said, the costs may vary significantly from manager to manager depending on the level of internal credit assessment that is currently performed. From a cost perspective, it is very helpful that ESMA opted for a principle-based approach rather than being prescriptive. This approach will allow asset managers to bolster and tweak their existing procedures in order to comply with the requirements rather than having to start from scratch based on a prescriptive credit process.

We would also like to stress that imposing the requirements of CRA for the methodology and the production of a pre-established scale of credit quality steps would have a dramatic impact on costs.

The options chosen should get closer to current market practices, which is less costly given the internal systems and processes already in place. Therefore, we agree with the CBA on pages 91-92. A standardised approach would be very costly, unnecessary and would lead to poverty of diverse opinions in the market which could cause similar behaviours increasing the possibility of systemic risk. We are therefore opposed to any completely new legislative prescribed procedure that would need to be implemented from scratch.

<ESMA\_QUESTION\_MMF\_9>

1. : Do you think other type of information should be considered as “characteristics” of the MMF?

<ESMA\_QUESTION\_MMF\_10>

In order to clarify our understanding on the scope of the question, we have considered that by referring to “characteristics of the MMF” ESMA is referring to the entire Annex I on “the type and characteristics of the MMF” as mentioned in Article 37(2)(a).

EFAMA understands that it is challenging to build a reporting template from scratch and highlights that the AIFMD reporting has significant differences between MMFs and the wide investment universe of funds falling under AIFMD. We are aware that most of the MMFs are UCITS and not AIFs and there is no harmonised EU-wide UCITS reporting regime. This leads to the not satisfactory result that MMFs established as UCITS have to report twice, under non-harmonised UCITS reporting templates and a new standardised MMF template. The same applies for MMFs which are AIFs: there is a requirement to report a template under the AIFMD and to report another template under the MMFR with partly same information. In practice, this also leads to the result that there is a need to implement a new reporting template which needs new implementation efforts (in particular, more effort than adding some more lines in a pre-existing harmonised reporting system). This situation draws attention towards the need of a harmonised reporting regime for funds in the EU.

In our view, the sections of the MMF reporting template should not diverge from the MMFR mandate, especially by avoiding an overloaded template and rather sticking to those items considered appropriate to collect in the specific case of MMFs by the MMFR. In particular, any reporting requirements with regards to share classes should be deleted – the Level-1 text does not require a report for share classes. Moreover, the reporting of the instruments should be limited to the master data - ESMA should be able to identify the instruments itself.

We would like to express our understanding that funds – either UCITS or AIFs – that are not MMFs will not be required to complete this reporting. The the reporting template proposed by ESMA includes a section on master/feeder funds which are marketed solely through employee saving schemes (A.3.1). EFAMA concludes that any feeder funds which are not MMFs but invest into MMFs will not be required to complete this reporting, nor be bound by MMFR. The MMFR makes no specific mention to master/feeder funds and only sets out restrictions for eligible investments for MMFs (except for Article 16(5) which applies only to the afore-mentioned MMFs for employee savings schemes).

We would also like to clarify the apparent misunderstanding in ESMA’s statement in paragraph 186 on page 49, when it mentions that “the destruction of shares is not allowed under the MMFR”. We understand “destruction of shares” as the “reverse distribution mechanism”. While it is not used by all member states, this mechanism is approved and widely used to manage the functioning of CNAV funds in markets with negative interest rates.

Regarding repo, reverse repo, and financial derivatives we suggest reducing the information requested and including only those fields which are not yet foreseen /derivable from other EU regulatory reporting, such as from EMIR or SFTR reporting. Taking this into account, we wonder whether the data requested on the market value of the exposure or collateral is necessary.

As a general remark, we agree that an electronic data interchange should be utilised for the reporting template. However, it is of the utmost importance that data is transmitted and stored in a secure way.

Please find below our comments with regards to the items included in the Annex I to the draft ITS.

*Items requiring further explanation*

* Item A.1.16: ‘Investment horizon of the MMF’ needs to be explained. Does it mean recommended holding period, the date to which the fund is authorised or how quickly an investor can redeem from the fund? In the industry, investors generally interpret ‘time horizon’ as the minimum holding period, for example 0 – 3 months for a MMF. We suggest that ESMA renames this field as “recommended holding period” and that this information is provided if applicable – this is the case for UCITS MMFs as they disclose this information in the UCITS KID - with the option to leave the field blank.
* Items A.3.14 and A.3.15 use the term ‘shadow NAV’ which is not defined in the MMFR. Does this relate to the mark-to-market NAV for CNAV and LVNAV funds? Or is it to be changed at a later stage in the “NAV calculation as foreseen in Article 30 of MMFR”?
* Items A.4.1 and A.4.2: clarification needed on what “total assets” refers to, is it book value or market value AuM?
* Items A.4.13 and 4.14: is this the net yield? If gross then item A.4.14 should be removed as all share classes will be the same.
* Item A.4.15: is this gross or net yield performance?
* Item A.5.1: please refer to our answer to Q 14.
* Item A.6.1: clarification needed on what security type breakdown is required. For operational reasons, we would support only one possible field as suggested by ESMA: “MMI under Article 10”. Therefore, choosing from a list of possible MMI mentioned in MMFR should be avoided.
* Item A.6.6: clarity needed on what this field requires.
* Items A.6.2 and A.6.32: does this mean the title of the issue?
* Items A.6.18, A.6.20, A.6.22: if “A.6.18” minus “A.6.20” give “A.6.22”, we ask for the latter to be excluded as it can be derived from the other two fields.
* Items A.6.27 and A.6.57: the information requested in these fields is the same and it can be derived from the ISIN. Therefore, we would suggest deleting these items. Our suggestion is based on the understanding that the requested information is at the level of the ISIN code. As the same field is being requested under different tables, we would ask to delete both.
* Items A.6.28, A.6.29, A.6.30, A.6.63, A.6.67, and A.6.68: fields referring to eligibility criteria seem burdensome and not strictly related to the delegated mandate that requires information on the assets based on type and characteristics and not on eligibility. ESMA should be able to identify the instruments and the different eligibility limits that apply through the ISIN. Therefore, we suggest deleting these items.
* Item A.6.31: we ask ESMA to add “other liquid assets” that an MMF may hold in accordance with Article 50(2) of directive 2009/65/EC. In our understanding, such assets should be classified in a specific item instead of being commingled with deposits.
* Item A.6.36: what is the difference between currency and foreign exchange rates?
* Items A.6.10 / A.6.11 / A.6.48 / A.6.49: does this mean immediate parent of the issuer or the ultimate parent?
* Item A.7.1: clarification is needed between the concept of “investor” that is alluded to in Article 27 and Article 37 in the MMFR and that of “beneficial owner” and “ultimate beneficial” owner in item A.7.1 of the template relating to the liabilities of MMFs. We would also like to highlight some operational and legal issues that could make it difficult to obtain such level of look-through. First, intermediaries who receive and transmit subscription/redemption orders from investors to the MMF registrar or issuer CSD do not necessarily always have a contractual relationship with the asset manager, even if some of them may act as distributors. Second, for confidentiality reasons, those intermediaries may be prevented from providing this information to asset managers.
* Item A.7.2: why is the disaggregated data on professional and retail clients required? This will depend on classification by the transfer agents as this data would need to be obtained from them. Additionally, under omnibus accounts, it is practically impossible to identify individual investors and to establish valid estimates.
* Item A.7.5: what does this sentence mean? In our understanding this would be specific to funds that are open-ended or closed-ended.
* Item A.7.9: this would only be applicable in market crisis. Normally, this will be 0% for all.
* Item B.1.8 ‘average spread between the two values’: which two values? The Bid and Offer? Or the shadow and constant NAV?

*Items requiring removal*

* Items A.1.2 and A.1.4: we suggest to withdraw these items referring to national and ECB codes, since it is not the purpose of MMF reporting to establish concordance tables. There should be only one code reported and the LEI would be sufficient. The LEI is at the level of the sub fund, what appears to us to be the proper granularity when talking of a fund.
* Items A.1.13, A.1.14, A.1.15: should preferably disappear as there is no obligation with MMFR to have a benchmark. In addition, the benchmark regulation is not yet applied and the terminology choice between “reference index” and “benchmark” is still to be assessed.
* Item A.3.3: being a second code for the same MMF, this item should be deleted.
* Item A.3.5: seems unnecessary as the answer to the following question on the number of share classes will provide the answer.
* Item A.3.8: should be deleted as the share class is identified by an ISIN code and it should not be the purpose of the MMF reporting to reference other codes. All share classes will have the same national code.
* Item A.4.12: gross yield is the same for all share classes.
* Item A.4.16: there is no fund level net return as share classes may have different fees. This has to either be gross or removed.
* Item A.4.9. on the “portfolio liquidity profile”: the time intervals should be relevant for MMFs (regarding liquidity, but also cost accounting): 1 day; 7 days; 75 days (for LVNAVs). We believe item A.4.9 is already covered by items A.4.7. and A.4.8 and the WAL and WAM limits. The portfolio liquidity profile is as that referred to in AIFMD reporting (with different range of time intervals) which seems to be too conservative and inappropriate to MMFs. Paragraph 108 of the AIFMD Guidelines provides that “each investment should be assigned to one period only and such assignment should be based on the shortest period during which such a position could reasonably be liquidated at or near its carrying value”. Under AIFMD the reporting of each investment should be assigned to one period only even if AIFs may liquidate a part of their position earlier. In this case, if the MMF assumes not to liquidate listed securities more than a certain percentage of its trading volume, it is possible that, due to the amount held by the MMF, the shortest period in which the entire position could be liquidated could be 6 days. Even if each day part of the entire position is converted to cash, in the reporting table should be indicated the entire position in the interval “4-7 days” and nothing in the interval “1 day or less” and “2-3 days”. Furthermore, it should be clarified the meaning of the interval “1 day or less” and “2-3 days”. In our understanding, those refer to trade dates and not to settlement dates. Asking for the assets to be converted to cash in one business day or less is unrealistic due to market convention for settlements. As a consequence, MMFs should not take into account the time delay for having the proceeds of the sale available on a cash account for the reporting of the portfolio liquidity profile. Unlike AIFs, there is no lock-up or notice period for MMFs. For all the reasons explained above, we suggest discharging item A.4.9 or adapting it to MMF characteristics.
* Item A.4.10 on “unencumbered cash”: this is valuable information in the case of a hedge fund, but not a MMF. Therefore, this field should be deleted. This field could only be relevant if it would refer to liquid assets different from deposits.
* Item 7.8: there is no “lock up period” for MMFs.

*Items requiring amendment*

* Item A.1.22 “Member State where the manager is authorised”: needs to be amended to state ‘Country where the manager is authorised’ as the manager may not be authorised in a Member State. The regulation covers all funds marketed in the EU.
* Items A.3.12 to A.3.16: we feel it would be more practical to establish a section c) dedicated to LVNAV and CNAV share classes that would group the items from A.3.12 to A.3.16.
* Items A.3.17 to 3.23 of section “c) Information on preceding fund or liquidation”: we think that only the last one - on the procedure of liquidation of the MMF (A.3.23) - is relevant in a regular reporting. It is of no use to carry every quarter an historical view of the previous mergers or acquisitions of a fund: they have to be reported at the time of the merger on behalf of the merged fund and as its last reporting exercise. We think that there could be a specific format for last reporting of a MMF who will merge with another fund.
* Items A.4.16, A.4.17, A.4.18: we propose to retain only those indicators that are of real use, i.e., the first range as follows: 1M, 3M, 1Y, YTD (please refer to our answer to Q 11). We do not understand what the added value would be for a regulator to have such detailed level of performance data. The monitoring of the market value of securities would be the key indicator of any specific credit issue within the fund.
* Item 5 on stress testing: this section seems very detailed. It is our understanding that stress tests would be the responsibility of the manager. It should be noted that the reporting frequency is quarterly or yearly for smaller funds, while the stress test frequency will be determined by the board of directors and shall be at least bi-annual (Article 28(3) of the MMFR). So it should also be clarified that, in case no stress test is made in the reporting period, the stress test information under reporting could simply include a description of such occurrence. In case stress tests are conducted in the reporting period, the most important information to provide is to point out whether those stress tests have evidenced any vulnerability that had to be reported and led to the elaboration of an action plan.
* Item A.6.25: we request to add in a further field “not applicable” to be used when asset managers apply Article 10(3) of MMFR.
* On page 137, relating to the liabilities of the MMF: it should be specified that the marking of orders by intermediaries is still not a reality and needs regulatory push to be effective. Therefore, we suggest that this field be populated only where known or possible.

On page 147, we do not consider the example provided to present the stress tests to be appropriate for the purposes of quarterly reporting. The outcomes of the stress tests should be a text field in the reporting template. Particularly because the figure field with the result of the stress test would be of little meaning without the assessment.

<ESMA\_QUESTION\_MMF\_10>

1. : Do you agree with the proposed way of reporting the yield of the MMF? If not, could you indicate what would be the more appropriate way to report yield in your views? Do you think the 7-days gross yield should be reported for each week of the reporting period? If not, what should be the appropriate frequency of reporting on this item?[[1]](#footnote-2) Do you think that the calendar year performance and yield could be calculated at (sub)fund level and at share class level? Which difficulties do you identify while doing so? At which frequency should it be reported?

<ESMA\_QUESTION\_MMF\_11>

EFAMA believes seven yield measurements as proposed - A.4.11 to A.4.17- may be exaggerated. One single set of figures for different time periods would be sufficient. The common range is the succession of returns YTD, 1 month, 3 months and 1 year. The goal should be to avoid debatable assumptions, be informative and allow regulators and investors to monitor and compare performances on a daily basis.

For MMFs, share classes do not develop specific investment strategies, they cover different types of distribution channels (and various share prices and fees for example) or different base currencies. Therefore, there is no specific additional risk nor performance engine at the level of the share class.

We would also like to highlight that European calculations (EONIA-based) have a 360 days basis. We do not see the rationale behind this proposed addition to the mandated sections of the MMFR reporting template, which is a regulatory template meant to assure European regulators on the compliance with the European MMFR.

MMF reporting is due quarterly and annually for smaller funds, so we would say this would be the appropriate frequency of reporting on this item.

We would like to reiterate the message that any reporting requirements with regards to share classes should be deleted - L1 does not requires a report for share classes. Moreover, the reporting of the instruments should be limited to the master data - ESMA should be able to identify the instruments itself. This would also reduce the implementation effort.

<ESMA\_QUESTION\_MMF\_11>

1. : Which type of measure would you suggest using to report the quantified outcome of the credit assessment procedure?

<ESMA\_QUESTION\_MMF\_12>

EFAMA does not agree with reporting requirements in ESMA’s ITS asking to report quantified outcomes of the internal credit quality assessment procedure. Article 37(2)(d)(i) reads: “the characteristics of each asset, such as name, country, issuer category, risk or maturity and the outcome of the internal credit quality assessment procedure”.

We believe the reporting requirement should be to report the outcome, not the “quantified” outcome of the internal credit quality assessment procedure. It should take into account the asset manager’s decision to organise its assessment procedures using quantified, qualitative or mixed criteria and the applicable final result.

The most appropriate measure to fill in in the template would be “favourable/unfavourable/not applicable”. For the information to be useful to regulators and ESMA the reporting should be as consistent and as binary as possible.

<ESMA\_QUESTION\_MMF\_12>

1. : With respect to reverse repurchase agreement, do you agree that the information requested is appropriate? With respect to repurchase agreements, do you think the value of cash received should be reported as a breakdown per investment purposes, i.e. liquidity management or investment in assets referred to in Article 15(6)? (given the information on the amount of cash received as part of repurchase agreements that is also requested). What should be the appropriate frequency of reporting on this information? Do you think the value of unencumbered cash should be reported as a breakdown per country where the bank account is located and currency? (given the information on deposits that is also requested)

<ESMA\_QUESTION\_MMF\_13>

Regarding reverse repos, we suggest reducing the information requested and including only those fields which are not derivable from other EU regulatory reporting, such as from SFTR reporting. In this context, we wonder whether the information on the market value of the exposure or collateral is necessary.

Concerning items A.6.51 t o A 6.68, we understand the need to monitor overcollateralization, act with first quality counterparties and respect the limits, quality and diversification requirements of the regulation.

We suggest collecting all the reported fields for the reporting template in the periodic reporting.

We do not see the need to report unencumbered assets nor the subsequent breakdown of liquidity by country and currency. The introduction of unencumbered assets that is not defined in MMFR and the fact that this concept may be relevant in the banking industry but not for MMFs - where re-hypothecation and re-use are strictly limited or forbidden ­- are at the core of our reasoning (please refer to our answer to Q10).

<ESMA\_QUESTION\_MMF\_13>

1. : Do you think the information on the investor ‘lock-up’ period in days (report asset weighted notice period if multiple classes or shares or units) is relevant in the case of MMFs (this information is included in the AIFMD reporting template)? )? Do you agree with the proposed way to report stress tests?

<ESMA\_QUESTION\_MMF\_14>

The reference to “lock up periods” should be removed from the reporting template. To our knowledge, lock up is not provided for in MMFs prospectuses. We have the view that such a restriction on liquidity would be inconsistent with the objective of a MMF and would disqualify a fund to be labelled MMF.

EFAMA believes that the reporting requirement should be strictly limited to what is expressly foreseen in the level 1 text. The reason being that Article 28 in the MMFR requires for stress tests to be regularly conducted by the MMF or the management company and, in case of vulnerability, requires an extensive report to be produced, submitted to the board of directors and, after amendments, submitted to the NCA that will in turn send it to ESMA.

Therefore, the quarterly report should not add complexity to the already demanding risk management process mentioned in Article 28. We agree that items A.5.1 to A.5.4 should remain descriptive.

It should be noted that the reporting frequency is quarterly or yearly for smaller funds, while the stress test frequency will be determined by the board of directors and shall be at least bi-annual (Article 28(3) of the MMFR). So it should also be clarified that, in case no stress test is made in the reporting period, the stress test information under reporting could simply include a description of such occurrence. In case stress tests are conducted in the reporting period, the most important information to provide is to point out whether those stress tests have evidenced any vulnerability that had to be reported and led to the elaboration of an action plan.

<ESMA\_QUESTION\_MMF\_14>

1. : Do you identify other type of information that should be included in the requested information in the reported template? What would be in your view the consequences in terms of costs of the proposed options for the reporting template? Do you agree with the assessment of costs and benefits above for the proposal mentioned in the CBA (Annex III) on the reporting template? If not, please explain why and provide any available quantitative data on the one-off and ongoing costs (if any) that the proposal would imply. Do you have specific views on the potential use of the ISO 20022 standard?

<ESMA\_QUESTION\_MMF\_15>

In general, we believe the reporting exercise under MMFR should be consistent but much narrower than the reporting under AIFMD.

The reporting template proposed by ESMA seems overly onerous, and appears to be heavily drawn from the AIFMD Annex IV reporting template. The AIFMD annex IV template is intended to capture a very broad universe of funds. MMFs are a far narrower universe than AIFs and will have narrower investment powers. A lot of the information reported does not seem necessary, particularly given the significant reporting already undertaken by MMFs (e.g. to NCAs, the ECB, etc). We believe there should be a bespoke starting point for MMF reporting focused on relevant data for monitoring MMFs and aligned as far as possible with other reporting requirements.

<ESMA\_QUESTION\_MMF\_15>

1. : Do you agree that the abovementioned references to EU/international standards are relevant in the context of the issuance by ESMA of guidelines on stress testing of MMFs? Do you identify other pieces of EU/International law that would be relevant in view of the work on ESMA guidelines on stress testing of MMFs?

<ESMA\_QUESTION\_MMF\_16>

We agree with ESMA’s exercise to acknowledge existing practices at EU level, notably those referring to UCITS and AIFMD. These seem consistent with FSB high level recommendations on the risks of run and fire-sales. Also, they do not oppose the US approach, although here again we insist that US and EU MMF markets are fundamentally different. Therefore, any reference to US regulation in this field should be avoided.

Stress testing should be a tool to help risk managers assess a fund against relevant variables such as interest rates, spreads, redemptions, liquidity. No specific level of stress testing should be imposed on managers.

EFAMA believes that ESMA’s guidelines should be limited to scenarios as required under the MMFR. The explanations regarding aggregated and reverse stress testing (paragraph 18 and 19, respectively, on pages 155 and 156) should be deleted considering these are not being presented as mere examples/suggestions. The global and EU discussion on the use and scope of stress test at an aggregated or individual investment fund level is still in its infancy. ESMA should take the time to properly consider the global progress on the matter before issuing guidelines on this.

While we understand that chapters 5.2 till 5.6 in the draft guidelines (pages 158-162) use a language that denotes the optional character of the content, we have strong reservations in relation to the language used - “should” – in chapter 5.1 (pages 154-157). We strongly encourage ESMA to adopt a coherent principle-based approach in chapter 5.1, and consider the guidelines from sections 5.2 till 5.7 as illustrative and not as “minimum requirements” to avoid defining a prescriptive stress-testing framework.

<ESMA\_QUESTION\_MMF\_16>

1. : Do you have specific views on the interpretation of the requirements of Article 25(1) of the MMF Regulation on the meaning of the abovementioned “effects on the MMF”?

<ESMA\_QUESTION\_MMF\_17>

We believe that an asset manager should stress test the impact of various factors listed in Level-1 on the portfolio/NAV and, where relevant, on the liquidity of the assets to ensure that the liquidity profile of the investments of the MMF complies with its underlying obligation. Indeed, stress testing results should point out whether any vulnerability has to be reported and could eventually lead to the elaboration of an action plan.

With regard to the criteria suggested by ESMA, we are particularly concerned with the concept of “liquidity bucket” (page 154, 155 in paragraphs 10 and 11, respectively). In the MMFR there are provisions for a minimum level of daily and weekly liquidity. The MMFR deals with the issue of liquidity in another way than the “bucket” approach that has been introduced in the US. For this reason, we do not support the idea mentioned in paragraph 205b (page 55) that volatility, as in the US MMF framework, would be a significant item when stress testing MMFs nor the reference to liquidity “buckets” made in paragraph 205c (page 56).

Our view is that the stress tests outcome should be measured in terms of NAV impact and, where applicable, the liquidity of the assets. Therefore, we would agree with ESMA on the criteria in a) while the concept of ‘bucket’ in c) would be replaced by the reference to the MMFR requirement to comply with minimum ratios of liquidity. The guidelines on stress tests should be modified accordingly.

We would like to reiterate that aggregate stress testing is not appropriate for MMFs. MMFs that are run by the same asset manager often have different portfolio managers and different investment guidelines. Therefore, different investment decisions are taken based on the view of each portfolio manager. Each MMF also has a different underlying investor base. Therefore, it would not be appropriate to aggregate data and holdings to stress test them at an aggregate level.

The liquidity requirements are set at the fund level. Oversight from the management body or the Board of Directors is performed also at a fund level rather than asset management level.

Aggregation may also lead to a disparity in portfolio management techniques where the actions of one portfolio manager may influence the actions of other managers.

<ESMA\_QUESTION\_MMF\_17>

1. : Do you have views on the specifications of the following criteria:

- level of changes of liquidity of the assets with respect to Article 28(1)(a),

- levels of changes of credit risk of the asset with respect to Article 28(1)(b),

- levels of change of the interest rates and exchange rates with respect to Article 28(1)(c),

- levels of redemption with respect to Article 28(1)(d),

- levels of widening or narrowing of spreads among indexes to which interest rates of portfolio securities are tied with respect to Article 28(1)(e),

- identification of macro-systemic shocks affecting the economy as a whole with respect to Article 28(1)(f))? (how would set the calibration of the relevant factors in the case of the Lehman Brothers’ event, and the two proposed scenarios A and B? With respect to scenario B mentioned above, do you think the duration of 12 months is appropriate?)

<ESMA\_QUESTION\_MMF\_18>

We would like to reiterate our vision that ESMA should adopt a coherent principle-based approach in chapter 5.1 that is aligned with the one taken in the remaining chapters in the guidelines.

To reach such principle-based approach we refer to examples such as those referred to on page 157, in the section “Non-exhaustiveness of the factors mentioned in the following sections 5.2 to 5.7 below”. We propose to replace “minimum requirements” by “illustrative”, when referring to the factors set out in the following sections 5.2 to 5.7. The objective should not be to set out new standardised requirements throughout the stress test tool, but to apply stress tests that are adapted and therefore meaningful to the specific fund to capture its potential fragilities/risks at time T.

Regarding the criteria mentioned in the questions, we have the following views:

Liquidity of assets

By way of introduction, this is clearly an important factor to take into account and usually could be associated either to bid-ask spread of the assets or to the trading volumes. However, given the specific nature of money market instruments, bid/offer spread is not always an appropriate indicator of liquidity.

In relation to the liquidity of assets and their relation to bid-ask spreads, we would like to add one remark. Changes in the liquidity of a MMF’s holdings and the resultant changes in portfolio NAV would be no different than those tested under widening credit spreads. This is because the decline in the liquidity of an asset would lead to a widening in bid-ask spreads, which is effectively already tested elsewhere. Thus, there seems to be a duplication of testing in the widening of spreads as proposed under Article 28 (1)(e) of the Regulation.

Levels of changes of credit risk of the asset

Spread risk is a reasonable proxy for credit risk as probabilities of default or rating migration could be hard to take into account in stress tests scenarios. To a certain extent, spread accounts for downgrade/ default risk.

We have one comment regarding paragraph 32 in ESMA’s guidelines (page 158). As we mentioned in our answer to Q7, we do not support the link of “material change” to “the relevant (…) criteria (…) including those referred to in Article 28 of the MMF Regulation” (page 105). Therefore, we propose to delete paragraph 32 (page 158) as it is our understanding that a deletion would cancel such link.

Levels of redemption

X% redemption scenario should be complemented by asset managers with assumptions about how assets would be sold to meet redemptions (proportionate liquidation or liquidation of the most liquid securities first). Also, assumptions are needed on how much market price impact will be incurred by these assets sales in a distressed or potentially illiquid market environment. In any case, we do not think that prescriptive levels should be fixed.

Macro-systemic shocks

Scenarios A or B described in paragraph 225 f. are a combination of worst case interest rates, credit spread and redemption level stress tests scenarios that are of great interest to MMFs. This shows how, in the end, macro-systemic shocks are the outcome of the other factors that are already being tested. We therefore see redundancy in the use of macro-economic criteria.

As recommended by the FSB in its policy recommendations to address structural vulnerabilities from asset management activities, it is the task of the authorities to analyse the level of systemic relevance and to consider whether and how to incorporate such potential impact in system-wide stress testing to better understand collective behaviour dynamics as well as the impact on financial markets and on the financial system more generally. Although such system-wide stress testing exercises are still in an exploratory stage, the FSB highlights that, over time, authorities may provide useful insights that could help inform both regulatory actions and funds’ liquidity risk management practices.

Even if the criteria mentioned in paragraph 48 (page 162) is not mandatory, we do not understand why ESMA suggests that MMF managers could take into account the UK Prudential Regulation Authority (PRA) calibration of stress tests for UK banks. Given that we disagree with the transposition of any banking legislation to MMFs, we propose this reference to delete point ii) in paragraph 48.

<ESMA\_QUESTION\_MMF\_18>

1. : Are you of the view that ESMA should specify other criteria that should be taken into account? If yes, which ones?

<ESMA\_QUESTION\_MMF\_19>

EFAMA does not think that additional criteria should be foreseen.

<ESMA\_QUESTION\_MMF\_19>

1. : Are you of the view that other topic should be covered in the ESMA guidelines under the requirements of Article 28 of the MMF Regulation?

<ESMA\_QUESTION\_MMF\_20>

EFAMA does not think that additional topics should be covered in the ESMA guidelines. The requirements of the MMFR are limited to stress test guidelines only with a view to establishing common reference parameters of the stress test scenarios to be included in the stress tests (paragraph 1 of Article 28 of the MMFR).

<ESMA\_QUESTION\_MMF\_20>

1. : Do you agree with the assessment of costs and benefits mentioned in the CBA (Annex III) on the different options on the Guidelines on stress tests? If not, please explain why and provide any available quantitative data on costs (if any) that the proposal would imply.

<ESMA\_QUESTION\_MMF\_21>

EFAMA proposes an amended version of ESMA’s choice of option 3 that is described on page 89. In particular, EFAMA proposes to adapt the language used in chapter 5.1 of ESMA’s draft guidelines to incorporate a more principle-based approach.

We believe that an amended version of option 3 can provide:

1. high level principles on most criteria;
2. clear but not mandatory provisions on thresholds and limits on a few criteria such as liquidity of the assets, movements on interest rates or levels of redemptions;
3. a fair balance: costs suffered by regulators will be limited by the requirements on the most sensitive criteria and professionals will not bear excessive cost relating to fully standardised stress tests. Flexibility will enable asset managers to adapt their procedures and master their costs. Nevertheless the time and expertise that will be devoted to the definition, monitoring, oversight and update of the MMF stress tests will not be only a substantial one-off cost but will represent a significant annual cost.

Option 1 is not acceptable in the sense that it could give room for national regulators to impose their own requirements and deviate from a harmonised approach. An amended version of Option 3 would be less expensive than Option 2 for regulators. Moreover, an amended version of Option 3 would have the added benefit of mitigating systemic related issues compared to Option 2. We would also like to note that the quarterly reporting gives ESMA the necessary information to conduct its own stress testing of systemic risk, based on all the data collected.

The difficulty with Option 2 is in the choice of quantitative parameters, thresholds on factors to be imposed and the ones to be left at the discretion of the MMF manager.

Although the quantitative values of the factors/thresholds/limits may change among asset managers, ESMA should refrain from changing the nature of the factor to be imposed (for example changing from recommendations on interest rates only to recommendations on spreads or liquidity ratios levels) as it may bear additional cost for the MMF manager who might regularly need to adapt his internal processes and controls.

<ESMA\_QUESTION\_MMF\_21>

1. in order in particular to build meaningful time series to be used for understanding the activity of a fund and for analysis purposes. [↑](#footnote-ref-2)