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| 28 September 2018 |

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| Response form for the Consultation Paper on the Draft guidelines on stress test scenarios under the MMF Regulation  |
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| Date: 28 September 2018 |

Responding to this paper

ESMA invites responses to the questions set out throughout its Consultation Paper on the Draft guidelines on stress test scenarios under the MMF Regulation. Responses are most helpful if they:

* respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

ESMA will consider all comments received by **1 December 2018.**

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the below steps when preparing and submitting their response:

* Insert your responses to the questions in the Consultation Paper in the present response form.
* Please do not remove tags of the type <ESMA\_QUESTION\_MMFST\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
* If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.
* When you have drafted your response, name your response form according to the following convention: ESMA\_ MMFST \_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_ MMFST \_ABCD\_RESPONSEFORM.
* Upload the form containing your responses, in Word format, to ESMA’s website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading “Your input – Open consultations” 🡪 “Consultation on Securitisation Repositories Application Requirements”).

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publically disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. 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 not to disclose the response 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 heading [Legal Notice](http://www.esma.europa.eu/legal-notice).

Who should read this paper?

This document will be of interest to (i) MMF managers and their trade associations, (ii) alternative investment funds and UCITS managers and their trade associations, as well as (iii) institutional and retail investors (and associations of such investors) investing in MMF.

# General information about respondent

|  |  |
| --- | --- |
| Name of the company / organisation | Michael Hill / Aberdeen Standard Investments |
| Activity | Investment Services |
| Are you representing an association? |[ ]
| Country/Region | UK |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFST\_1>

## Our Existing Stress Testing Process

The language used in ESMA’s March 2018 Guidelines indicated a high degree of flexibility in our choice of stress testing methods. Like many other money-market fund managers, we had a stress-testing regime in place prior to the publication of the Regulation. We use standardised market tests (one specified by S&P and another by Moody’s), and also more stringent in-house tests. We reviewed our processes, and were satisfied that they complied with the guidelines.

The Moody’s and S&P stress tests are existing market standard tests. Where they do not already meet the March Guidelines, they are easily adaptable to do so. They have the benefit of being relatively easy to calculate. Many managers already have the data and calculation engines in place to perform these tests. They are an easy, cost-effective way of meeting the requirements of the Regulation.

The Moody’s test simulates a combined credit spread shift, a yield curve shift, and a redemption. The components of this existing market standard stress test are easily adaptable to meet the high level March Guidelines:

1. Liquidity. An asset’s yield (bid or ask) can be modelled as a risk-free element, a credit spread element, and a liquidity spread element. With this model, a stress on liquidity is mathematically identical to a stress on credit. As part of the Moody’s stress test, we apply shifts to asset spreads. The results of this test apply equally to Liquidity and Credit stresses.
2. Credit. As above, as part of the Moody’s stress test, we apply shifts to asset spreads. The results of this test apply equally to Liquidity and Credit stresses.
3. Interest Rates and Exchange Rates.
	1. Interest Rates. As part of the Moody’s test we apply a 100bp parallel interest rate curve shift across all security types and maturities.
	2. Exchange rates. This is not included in the Moody’s test. Note that all assets held in our funds have the same currency as the fund, and so are not impacted by exchange rates. Note also that point (26) of the pre-amble to the Regulation asks for the entire currency risk exposure to be hedged.
4. Redemptions. The final part of the Moody’s stress test is to model a redemption of 50% of the units in the portfolio.
5. Reference Index Spreads. These indexes are typically interest rates such as Libor, and are tested as part of the same 100bp parallel interest rate shift used in c).
6. The complete Moody’s test is a hypothetical macro scenario, combining the elements mentioned above.

Components of the S&P tests also meet some of the high level March Guidelines.

1. Liquidity. As mentioned above, a liquidity spread change is mathematically equivalent to a credit spread change. The S&P tests include widening and narrowing of spreads.
2. Credit. The S&P tests include widening and narrowing of spreads.
3. Interest Rates and Exchange Rates.
	1. Interest Rates. S&P tests include parallel interest-rate shifts of plus/minus 200 bps in 25-basis-point increments.
	2. Exchange rates. This is not included in the S&P tests. Note that all assets held in our funds have the same currency as the fund, and so are not impacted by exchange rates. Note also that point (26) of the pre-amble to the Regulation asks for the entire currency risk exposure to be hedged.
4. Redemptions. S&P tests include redemptions of 10%, 15%, 20%, 25%, and the percentage of the largest historical five-business-day net redemptions for the fund.
5. Reference Index Spreads. These indexes are typically interest rates such as Libor, and are tested as part of the same interest rate shifts used in c).

The wide range of scenarios in the S&P tests allow us to consider which outcomes cause concern, the likelihood of those outcomes, and any action we should take to mitigate the impact. In-house, we combine rate shifts with a range of credit shifts and redemption scenarios. This gives us a matrix of possible NAV impacts for a wide range of plausible scenarios. These generic tests allow us to prepare for an unknown future in an evolving market environment.

Generic tests encourage people to imagine which possible real-world events could produce similar results. In contrast, tests with very specific parameters instead invite people to question the likelihood of those parameters, rather than the likelihood of the results. Similarly, with historical scenarios, the results are more easily dismissed by people assuming that history does not repeat itself.

Paragraphs (3) to (6) of the preamble to Regulation (EU) 2017/1131, show that the purpose of the regulation is to ensure that MMFs are able to honour redemption requests from investors, especially during stressed market situations. We believe that a broad range of generic tests are a sound basis on which to assess our ability to do this.

## ESMA September Consultation Paper

Given the flexible language used in the March paper, we were surprised that the September 2018 Consultation Paper proposed very prescriptive stress tests. We have concerns regarding the practical impact the proposal has on us, the theoretical bases upon with the proposal is based, and the potential for ESMA to redefine the methodology annually.

The proposed tests are incredibly specific. In table A on page 15 of the consultation paper, the example shows 26 liquidity discount parameters for government bonds alone, noted as a non-exhaustive list. Tests with very specific parameters invite people to question the likelihood of those parameters, rather than the likelihood of the results. Similarly, with historical scenarios, the results are more easily dismissed by people assuming that history does not repeat itself. Generic tests (eg parallel shift of 25bp) encourage people to imagine which possible real-world events could produce similar results, and prepare accordingly.

The proposal threatens to consume a lot of resource, with the outcome being a test answer that we may not have much confidence in.

On a practical level, the proposed tests are not compatible with our existing stress-testing framework. The data on our holdings that we feed to our existing calculation tool is not sufficient to carry out these proposed ESMA tests. We will need to source additional data on our holdings. The current set up of the calculation tools we use do not perform all the proposed calculations. We will need to adjust / build / acquire a new calculation tool, and validate that it works as intended. We will need to incorporate several tables of ESMA provided parameters into our new tool. We will have to carefully ensure that the values of these many parameters are correctly entered into our new tool. There is a lot of scope for error.

On an ongoing basis, point 14 of the Consultation Paper allows ESMA to change the methodology used for calculation as frequently as annually. Point 15 allows for additional calculations to be included. Point 66 indicates an intention to change future versions of the hypothetical macro scenario. It is important to note that changing the scenario may also require a change in the calculation methodology. For example, simply reversing the sequence of events of the scenario proposed in point 68 would require a change to the calculation methodology. Each change requires the manager to specify, develop, and validate the calculation for the new methodology. Each change introduces a risk of incorrect implementation. We are keen to have a consistent regime, which reduces the need for change, reduces the associated operational risks, and reduces the associated costs of change, which will inevitably be passed on to investors through higher fees.

We would also note that the more data that is required to conduct stress-tests, the less likely managers are to use a “look-through” basis when holding shares of other MMFs (point 17 of the Consultation Paper), as data gathering and mapping becomes increasingly complex. Generally, look-through should be preferable to extrapolation, as up to 10% of the fund may be invested in other MMFs. Extrapolation can skew the results of the stress test.

<ESMA\_COMMENT\_MMFST \_1>

1. : Do you agree that the impact of market stress should be primarily measured on the NAV?

<ESMA\_QUESTION\_MMFST\_1>

Yes

<ESMA\_QUESTION\_MMFST\_1>

1. : Do you agree that some assets may not be stressed under all scenarios (in which case the scope of the assets that are subject to the individual stress tests will be clearly defined in the guidelines)? Or should we include additional assumption for those assets (e.g. default by depositary banks in repaying cash holdings)?

<ESMA\_QUESTION\_MMFST\_2>

Yes, we agree that some assets may not be stressed under all scenarios, cash being an example.  Note that point 47 of the CP already includes a scenario where an institution defaults on a deposit.

<ESMA\_QUESTION\_MMFST\_2>

1. : Do you have views on the way to stress collateral in collateralised transactions (e.g. repos, derivatives)? It may especially involve increased counterparty risk or the need to post additional collateral.

<ESMA\_QUESTION\_MMFST\_3>

Yes. If a stress on assets held as collateral is to be introduced, this should be consistent with how those assets would be treated if they were held for other purposes. Would we report that separately or inclusively?

<ESMA\_QUESTION\_MMFST\_3>

1. : Do you agree that the same market stress parameters should be used for all MMFs in order to measure the impact on NAV? Do you have views on the way to take into account the type of fund (short term and standard; CNAV, VNAV and LVNAV) to measure the impact on the fund?

<ESMA\_QUESTION\_MMFST\_4>

We have no issue with the principal of using the same parameters. We would encourage ESMA to consider use of parameters and tests in line with the market standard Moody’s and S&P tests.

<ESMA\_QUESTION\_MMFST\_4>

1. : Do you agree that a consistent approach between the ESAs should be attained? Were appropriate, which risk parameters need to be significantly different?

<ESMA\_QUESTION\_MMFST\_5>

No. The purpose of the ESMA stress tests is different to that of the other ESA stress tests. The approach taken should be suitable for the purpose, and does not need to be consistent with the approaches of the other authorities.

<ESMA\_QUESTION\_MMFST\_5>

1. : Do you have views on which factors are relevant for the determination/calibration of shocks?

<ESMA\_QUESTION\_MMFST\_6>

The suggested parameters are too asset specific. In table A on page 15 of the consultation paper, the example shows 26 liquidity discount parameters for government bonds alone, noted as a non-exhaustive list. This invites errors by mistyping values. Tests with very specific parameters invite people to question the likelihood of those parameters, rather than the likelihood of the results. Similarly, with historical scenarios, the results are more easily dismissed by people assuming that history does not repeat itself.

A regime that uses a number of tests with generic parameters gives more useful information. An asset’s yield (bid or ask) can be modelled as a risk-free element, a credit spread element, and a liquidity spread element. By stressing all liquidity spreads by (say) 25bp, 50bp, 75bp and 100bp, the manager can get a good feel for the potential risks to their portfolio. Generic tests (eg parallel shift of 25bp) encourage people to imagine which possible real-world events could produce similar results, and prepare accordingly. We would encourage ESMA to consider use of parameters and tests in line with the market standard Moody’s and S&P tests.

If ESMA does choose to continue with their suggested method, we think that discount factors could be based on historical bid-offer spreads of major BMs however this would need a long record to include stressed periods like the Lehman shock.

<ESMA\_QUESTION\_MMFST\_6>

1. : Do you have a preference between the two proposed options: calibrated discount factor on bid prices; Multiple quoted bid-ask spread?

<ESMA\_QUESTION\_MMFST\_7>

We don't like either option. Under both options, ESMA proposes factors specific to different types of bonds. In a genuine liquidity crisis, this may have the unintended consequence of encouraging managers to select one issuer over another in an aim to improve their stress test result. With the example figures provided for option 1, a manager would choose to shun Greek bonds. This would artificially reduce the liquidity of Greek bonds, simply due to the regulator’s choice of parameters.

Option 1 allows two bonds with the same issuer, one with 396 days to maturity, the other with 398 days to maturity, to get very different treatment. Nonsense inputs lead to nonsense results.

Option 2.

Article 29, 3 (a) of the MMFR, “the asset of an MMF shall be valued at the more prudent side of bid and offer unless the asset can be closed out at mid-market”. Funds valued by a third party may show only the valuation price. Sourcing both bid and ask may be a barrier to a manager implementing this test.

When the market is in a period of illiquidity, the bid-ask spread will already be significantly wider than average. This test will compound this.

My understanding of the market (I may be out-of-date) is that brokers can quote bid-ask prices for a bond, but are not obliged to trade at those prices. If this is correct, then the bid-ask spread quoted is not necessarily representative of market liquidity.

Unlike equities, there is no single market for bonds. This gives managers flexibility in their choice of bid-ask spread, allowing opportunity to ‘game’ test results.

<ESMA\_QUESTION\_MMFST\_7>

1. : What is your view on how to stress underlying assets not mentioned above (i.e. not corporate and government bonds)? In your opinion are there asset classes not mentioned above that should be excluded from a quantitative assessment?

<ESMA\_QUESTION\_MMFST\_8>

We think we should include other categories (non-bonds MM instruments such as CD, CP, TDs) in the stress testing, however we would note that both options ESMA propose are not fit for non-bonds MMI as no reliable bid-offer prices data available.

Our existing methodology for stressing liquidity is to assume that the yield on each asset includes an illiquidity premium. We run a series of tests on the portfolio, assuming that all asset premiums go up by 10 bps, 20 bps, 30 bps etc. We revalue each asset & analyse the portfolio level results. These tests don’t make assumptions about which segments of the market will lose liquidity. The manager is able to look at the results, and decide which outcomes would cause concern. They are then able to judge the likelihood of such an outcome, and take action accordingly.

<ESMA\_QUESTION\_MMFST\_8>

1. : Do you have any views on the calibration? With reference to Option 2, do you think that the adoption of fixed stress factors for different asset classes is in line with practices? Which elements should be identified and used to define the appropriate stress factor for each asset class?

<ESMA\_QUESTION\_MMFST\_9>

No, we don’t think adoption of fixed stress factors for different asset classes is in line with practices. We would suggest consideration of a stress testing regime more in line with the existing Moodys and S&P market standard stress tests. We don’t feel that arbitrary cut-offs for maturities is appropriate for factors. We would instead encourage ESMA to consider the use of a model where the liquidity premium is embedded in the spread. If stress-tests are to be forward looking, then we’d be wary of using historic data to estimate factors for government bond liquidity. The difficulty of option 2 is to source bid/offer spread of each security (especially if we would like to expand this test to non-bonds MMI)

<ESMA\_QUESTION\_MMFST\_9>

1. : Do you think that the volume of an asset held by the fund should be considered for the proposed stress factors (esp. the value of assets held compared with the size of the underlying market)? Do you have any views on the methodology?

<ESMA\_QUESTION\_MMFST\_10>

No, I do not think that the volume of an asset held should be considered.

<ESMA\_QUESTION\_MMFST\_10>

1. : Do you have views on which factors are relevant for the determination/calibration of shocks?

<ESMA\_QUESTION\_MMFST\_11>

Points 40 and 43 refer to using CDS to measure credit spreads.  CDS are typically traded on 3y, 5y, 7y and 10y tenors.  The quoted spreads on these tenors show a term structure to credit spreads.  Given that MMFs are focused on instruments with maturities far shorter than three years, we believe CDS are inappropriate for calibrating credit shocks to an MMF. Our existing methodology for stressing credit spreads is to assume that the yield on each asset includes a credit spread. We run a series of tests on the portfolio, assuming that all spreads go up by a parallel 10bps, 20 bps, 30 bps etc. We revalue each asset & analyse the portfolio level results. These tests don’t make assumptions about which segments of the market will change most. The manager is able to look at the results, and decide which outcomes would cause concern. They are then able to judge the likelihood of such an outcome, and take action accordingly.

<ESMA\_QUESTION\_MMFST\_11>

1. : Do you have a preference between the two proposed options: spreads multiplied by a factor or ESMA credit spread parameter?

<ESMA\_QUESTION\_MMFST\_12>

Option 1 requires calculating the credit spread on each instrument first.

It looks like we would be expected to source CDS information to manage an MMF. As mentioned, we don’t believe CDS are appropriate for this purpose as they are typically traded on 3y, 5y, 7y and 10y tenors.

It also looks like we would be expected to have swap curve information.

Point 44 describes calculating a credit spread as the government bond yield minus the swap yield for the same currency. This requires the manager to have access to a swap curve to calculate the spread. Some points to note:

• Swaps are typically quoted for maturities of one year or over. Yields for shorter dates are typically taken from cash market, FRAs, or futures.

• The bulk of GBP swaps are still based on LIBOR, which is to be decommissioned. This may impact the choice of swap curve to be used.

• At present, short-dated UK Gilts have yields below swap yields. This would result in negative credit spreads. Applying a multiplicative factor to a negative spread will have the impact of increasing the NAV of a portfolio.

Option 2

If the test is to add a fixed amount to the credit spread, then we can replicate this by adding a fixed amount to the overall asset yield. This is more consistent with the approach taken by rating agencies for their stressed NAV calculation. This circumvents the need to explicitly calculate a credit spread for each asset.

<ESMA\_QUESTION\_MMFST\_12>

1. : Do you see specific issues (e.g. implementation, non-standardisation, or similar) with either of the two options?

<ESMA\_QUESTION\_MMFST\_13>

See response to Q12

<ESMA\_QUESTION\_MMFST\_13>

1. : Do you agree with having an additional credit stress simulating the default of the fund’s two main exposures?

<ESMA\_QUESTION\_MMFST\_14>

Yes, though please see also our response to Q16

<ESMA\_QUESTION\_MMFST\_14>

1. : The additional stress simulates the default of the fund two main exposures: when an exposure is collateralised, do you think that additional assumptions on the value of the collateral are necessary (i.e. if the defaulting counterparty is fully collateralised, and the value of the collateral is unchanged, there will be no impact)?

<ESMA\_QUESTION\_MMFST\_15>

The MMFR requires that collateral be “of high quality and does not display a high correlation with the performance of the counterparty”. We think that for the purpose of the stress test it should be safe to assume that the value of the collateral is unchanged.

<ESMA\_QUESTION\_MMFST\_15>

1. : Do you think that additional assumptions are needed to calculate the loss given default in the additional scenario?

<ESMA\_QUESTION\_MMFST\_16>

Given most of the money market instruments are highly rated, it is hard to differentiate recovery rate per each asset class (CP vs. bonds etc.) from historical experience, we think adding recovery rate assumption makes tests more complicated/ambiguous.

<ESMA\_QUESTION\_MMFST\_16>

1. : Do you have views on which factors are relevant for the determination/calibration of shocks?

<ESMA\_QUESTION\_MMFST\_17>

Could we get clarification on these two points:

• Guideline 3 states “For fixed-rate instruments… use the same reference rate curve”. Yet from point 45, it looks like fixed rate government bonds are to use stresses defined on different curves.

• Guideline 3 also refers to the rate used for floating instruments. If LIBOR is discontinued, this will impact how coupons are determined on many floating rate notes. It looks like Guideline 3 requires us to discount based on a LIBOR curve, though we will no longer have such a curve to use.

Our existing methodology for stressing yields is as follows. We run a series of tests on the portfolio, assuming that all yields go up by a parallel 10bps, 20 bps, 30 bps etc. We revalue each asset & analyse the portfolio level results. The manager is able to look at the results, and decide which outcomes would cause concern. They are then able to judge the likelihood of such an outcome, and take action accordingly.

We think providing simple scenarios such as XXbp parallel shock, XXbp yield steepening shock, XX% depreciation of base currency to all other currencies etc. will be more straightforward and easy to sense check of the results.

<ESMA\_QUESTION\_MMFST\_17>

1. : Do you consider that the parameters used for the 2018 EBA scenario cover all the parameters needed for the purpose of the MMF scenario on interest rates and exchange rates, and the scenario on hypothetical widening or narrowing of spreads among indices to which interest rates of portfolio securities are tied? If not, which parameters should be added?

<ESMA\_QUESTION\_MMFST\_18>

The tenors used in the EBA scenarios start from one month. How would these be applied to instruments with shorter maturities, which is a significant portion of the MMF? (Short term LVNAV and CNAV MMFs will have at least 10% of assets in daily maturing assets, and 30% in weekly maturing assets. Short term VNAV and standard MMFs will have at least 7.5% of assets in daily maturing assets, and 15% in weekly maturing assets).

Paragraph 53 suggests the reference rate tenor should align with the original maturity of the instrument. Can you confirm that if there were two instruments, with the same issuer, maturing on the same day, but one was issued earlier than the other, that they should be treated differently for the purpose of this stress test? We disagree with this, and think that any tenor used should align with the residual maturity of the instrument.

We would also want it ensured that all countries were included in the parameters if these are to be used.

<ESMA\_QUESTION\_MMFST\_18>

1. : Do you have views on which factors are relevant for the determination/calibration of shocks?

<ESMA\_QUESTION\_MMFST\_19>

Option 1 is difficult due to ambiguity around the self-assessment. Option 2 is more straight-forward, however we prefer to use rating rather than CQS.

<ESMA\_QUESTION\_MMFST\_19>

1. : Do you agree with the proposed approaches: a self-assessment on the maximum size of outflows the fund can face without distorting portfolio allocation; a comparison of stressed outflows with available weekly liquid assets?

<ESMA\_QUESTION\_MMFST\_20>

No. The weekly liquidity stress test is redundant for short term LVNAV and CNAV MMFs. With a minimum of 40% of the MMF maturing every week (see articles 24 and 25 of the Regulation), funds can clearly meet weekly redemptions of 15% to 30% (dependent on mix of retail & institutional investors).

Similarly, the purpose is diminished for short term VNAV and standard MMFs, who hold a minimum of 22.5% of assets maturing within the week.

The reverse liquidity stress test has no obvious practical purpose. With a minimum of 40% (short term LVNAV and CNAV MMFs) or 22.5% (short term VNAV and standard MMFs) of the MMF maturing every week (see articles 24 and 25 of the Regulation), managers need to be highly flexible about their allocation. There is no justification for assuming that the manager wants to avoid distorting the asset class, geographical and sectoral allocations.

The reverse liquidity stress test takes the subjective view of the manager as to the weekly tradable amount of each instrument. It is inappropriate to use a subjective view as an input for a quantitative stress test.

Paragraph 59 is confusing in that it states that for each asset-class we are to calculate the weekly tradable amount. However, in the example, the tradable amount of each individual asset is considered.

<ESMA\_QUESTION\_MMFST\_20>

1. : Reverse stress test: do you have views on how to assess the capacity to comply with the weekly liquid assets requirements specified in Article 24(1)?

<ESMA\_QUESTION\_MMFST\_21>

This question, paragraphs 58 & 59, and the draft guideline following paragraph 63 all refer to Article 24(1). This article relates only to short-term MMFs. Is it correct to conclude that these tests will not apply to standard MMFs (Article 25)?

<ESMA\_QUESTION\_MMFST\_21>

1. : Do you think there should be differentiated outflows assumptions for retail and institutional investors (e.g. higher outflows from institutional investors).

<ESMA\_QUESTION\_MMFST\_22>

We don’t think there should be differentiated outflow assumptions for retail and institutional investors without evidence to justify those assumptions.

<ESMA\_QUESTION\_MMFST\_22>

1. : Do you have views on the weights that should be attributed to weekly liquid assets?

<ESMA\_QUESTION\_MMFST\_23>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_MMFST\_23>

1. : Do you agree with the additional stress test scenario simulating outflows from the two main investors?

<ESMA\_QUESTION\_MMFST\_24>

Yes

<ESMA\_QUESTION\_MMFST\_24>

1. : Do you agree that for the first update of the guidelines MMF managers could be asked to combine the impact of the different risk scenarios, including the liquidity shock?

<ESMA\_QUESTION\_MMFST\_25>

The Regulation anticipates a scenario where worsening market prices are followed by redemptions (see Regulation (EU) 2017/1131 (3) and (6)). This sequence of events is consistent with the stress-test that Moody’s apply when rating Money Market funds.

ESMA is proposing a different sequence of events, where redemptions are followed by worsening market prices. We believe the hypothetical macro stress test should be consistent with existing market practice (Moody’s), and the Regulation.

Stress tests should be forward looking and plausible, and not trying to recreate past events such as the Lehmans collapse.

Point 66 indicates an intention to change the scenario in future. Although parameters may change, it is important to keep the sequence of events (and so the calculation methodology) consistent. This eliminates the significant risk of errors being made when introducing a new calculation model.

<ESMA\_QUESTION\_MMFST\_25>