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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

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| --- | --- |
| Name of the company / organisation | Amundi |
| Activity | Investment Services |
| Are you representing an association? |  |
| Country/Region | France |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFST\_1>

Amundi is Europe’s largest asset manager by assets under management and ranks in the top 10 globally. It manages more than 1.470 trillion euros of assets across six main investment hubs. Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, and listed since November 2015, Amundi is the 1st asset manager in Europe by market capitalization.

Thanks to its unique research capabilities and the skills of close to 4,500 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

Risk management is at the center of the AM industry and as part of it Stress tests (STs) are largely used by Amundi’s risk teams. Their results are presented and discussed in risk monitoring committees dedicated to each type of investment strategy or asset class. Money Market Funds (MMFs) represent a significant proportion, more than 10%, of assets under management. One of the key features of this very specific investment strategy relates to the necessity to manage liquidity flows both coming and exiting with the highest reactivity. No other type of fund have daily flows that may represent several percentage points of their NAV. Another characteristic of MMFs is the size of the largest ones that offer the capacity for clients to invest large amounts on a single subscription call… and redeem identically. We consider the introduction of MMF Regulation as a positive move in order to enhance the confidence of investors in MMFs, even if we believe that all funds should by definition be marked to market at each valuation without exception.

With respect to the proposed guidelines on MMFs stress tests, Amundi’s introductory remarks are as follows:

* We like the idea that Guidelines will provide a common philosophy to develop stress tests (ST) on MMFs on a more harmonised and consistent basis. It is important for the sake of the strength of the label that all MMFs present a high level of robustness even in case of crisis and that is what STs contribute to. However, we strongly believe that some discretion and flexibility should be given to risk management teams when they perform STs in order to take into account their profound knowledge of the risk mapping of each fund. In that respect we like when Guidelines offer guidance without being prescriptive and recommend good practices without imposing them. We read that **high principles based approach** in the first part of the Guidelines, but not in the last part §4.8.
* In fact the *guidelines on the establishment of common reference ST scenarios the result of which should be included in the reporting template mentioned in article 37(4) of the MMF regulation* takes a totally different approach. We cannot share the dogmatic view that detailed results should be reported on each fund on a standardised format. We have the naïve understanding that **Guidelines cannot add on what higher level texts have decided** and that they are soft and not hard law. We are disappointed to see that the present consultation does not include any specific question relating to this final section of the guidelines. It may be considered that ESMA has not properly conducted the consultative process described in the better regulation process concerning section 4.8 of the guidelines.
* **We do not support the idea to develop transversal ST that would apply to all the financial industry** on the basis of scenarios and calibration determined for banks and insurers. Typically leverage which is a key issue and a justified focus for banking regulation is not relevant for most funds since only hedge funds will use leverage substantially. The aim of the ST is not comparable and there is no such approach as minimum capital requirement in the fund industry. STs on funds which are not hedge funds aim at controlling the risks of loss or illiquidity that investors may suffer in a crisis. It does not primarily aim at preventing a fund from going bust which is perceived as a theoretical issue for UCITS and AIF without substantial leverage. Furthermore a transversal ST will not, contrary to a common place thought, help in getting a global view of financial risk throughout all participants. Asset managers (AMs) run funds and mandates for investors who bear the risk. These investors’ duty is to monitor and control their exposure to risks and they generally stress test the behaviour of their investment portfolio as part as their own risk management. When they are banks or insurance companies they use a look through approach that comes at the end to a risk management (including ST) of the portfolios managed by AM. Such overlaps may lead to the erroneous conclusion that risks add up when they do not. If factors of risk may be common, calibration should not be and hierarchy of the most important risk factors will also differ.
* Considering the reporting, we believe that instead of detailed data as foreseen in the guidelines the **production of one global indicator** and/or more detailed comments would be more appropriate. Access to data is available for NCAs when and if they want to further investigate and control. The more data are required the more the report will look like a box ticking exercise and lose the initial objective of ST: better asses risk and prepare to handle crisis.
* If standardised ST were made mandatory for the purpose of reporting it is the responsibility of ESMA to **make sure that all MMFs will be stressed identically**, using the same shocks calibrated identically on factors which are defined exactly in the same manner. In other words, ESMA should produce a detailed reference data basis and a description of scenarios without leaving any space for personal interpretation for these standardised ST scenarios. It is the only way to ensure comparability.

We now turn to the answers to the specific questions of the consultation and the fact that there is no question relating to section 4.8 reporting requirements does not mean that we agree with this section.

<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 for VNAV MMFs, be they short term or standard. Conversely, for CNAV and LVNAV MMFs the impact should be measured on marked to market (MtM) data. §9 refers to the “impact on the difference between the constant NAV per unit or share and the NAV per unit or share” evidencing that NAV implies MtM.

<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>

We consider that there is no need to stress cash amounts held in the depositary bank. The selection of the depositary as well as of banks the funds deposits funds with follows a strict and demanding process which takes into account the financial strength of the bank. Furthermore, this risk is already monitored as part of the counterparty risk.

<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>

Amundi currently uses only cash collateral. Cash does not need to be stress tested. More generally, we believe that there is no need to stress collateral. Collateral is not an asset of the fund but a guarantee that would be accessible to the fund in case of some failure in the completion of another transaction. The real risk is that of default of the counterparty in the initial deal and that will be stress tested but testing the guarantee is not appropriate. Furthermore, the eligible collateral is severely restricted for funds under UCITS and AIFMD; for all market participants under EMIR collateral must be high quality securities with good liquidity (or gold) and minimum haircuts are required.

<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 definitely think that the same parameters have to be used for all MMFs when it comes to reporting figures that are mandatory to produce. We totally support that recommendation by ESMA that should help to develop common practices in the industry and allow direct comparison. Please refer to our answer to question 1 to clarify that for LVNAV and CNVAV funds the impact must be measured on a MtM basis. The aim is to allow for meaningful comparison between all MMFs, irrespective of their classification.

However, we strongly believe that the mandatory part of the STs should be limited to what has been foreseen by legislators in the level 1 text. We think that for most STs calibration and choice of factors should be decided by AMs based on the different examples provided in the Guidelines.

<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>

If we insist on the advantage to have similar parameters for all MMFs to allow for a fair comparison, we think that these parameters may differ from those used for other stress tests in other fields. We agree on consistency between approaches of the ESAs but do not think that it should amount to identity. Typically the calibration and the relative importance of different shocks should be determined based on the risk specific to MMFs. Typically, when banks show heavy leverage on their balance sheet, MMFs are prevented to have any leverage. We oppose any attempt to copy-paste stress scenarios that are applicable to banks and insurance companies and do not share the idea that applying the same stress to all participants will give a global and relevant view of a crisis situation. On the contrary it will blur the view due to overlaps and lack of focus on the relevant risk areas which are specific to each industry.

<ESMA\_QUESTION\_MMFST\_5>

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

<ESMA\_QUESTION\_MMFST\_6>

We accept that the widening of bid-ask spread be used to calibrate liquidity shocks. Relying on historical data is relevant to determine this calibration but it is not easy to retrieve and implement all the historical data on bid/ask spreads. The introduction of a standard widening of all spreads, such as doubling them from their current level for example, can also be appropriate for stress testing purpose.

<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 have a preference for Option 2. In our view Option 1 is not granular enough particularly on the maturity segments where we see a cliff edge effect on Day 397 to maturity.

<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>

Stress tests will be performed using bid/ask spreads provided by data providers and dealing desks. Of course, cash will not be stressed. The same should apply to collateralised transactions like Reverse Repos.

<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>

Yes it is consistent with current practices. The factors have to be simple to facilitate comparison of funds. The split between different asset classes is not always necessary, especially if instead of expressing a spread widening in absolute terms, i.e. a shock in bps, we take the approach to stress on relative terms (doubling the spread for example).

<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>

This criterion of the size of holding relative to the size of the underlying market is relevant to monitor liquidity risk. We use internal holding ratios thresholds and limits to monitor liquidity. But in our view it should not be part of the stress test exercise to keep it simple on the one hand and, on the other hand, because it is a second level preoccupation. In case of a liquidity shock, the key problem is to find a counterparty and then discuss the size. Furthermore, metrics are not easy to determine.

<ESMA\_QUESTION\_MMFST\_10>

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

<ESMA\_QUESTION\_MMFST\_11>

Amundi recommends as most relevant criteria for calibrating a credit shock the use of historical data on credit spreads. It is possible to use the issuer’s CDS curves or generic / index curves if not available. Our experience is that many risk teams among asset managers already use these data. We should keep it simple to make it work and facilitate a common usage of the same factors.

<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>

We prefer Option 1. It is far easier to implement and we are confident that the determination of the credit spread either directly through the CDS or via a proxy such as an index is already a common practice among risk management teams. Option 2 is definitely more difficult to implement, very (not to say too) granular and relying directly on ratings produced by CRAs.

<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>

Option 1 requires historical data, a good coverage on issuers or at least on generic curves. The calibration is really important. Shall we implement daily/weekly or monthly period shocks? The definition of the lookback period matters also (1Y/ 2Y/ 3Y/ 5Y/ 10Y?).  
Option 2 relies on a matrix which looks complex to build and implement when it comes to create multiple scenarios. Actually this option will not be accurate to capture a credit event concerning a specific issuer.

<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>

We do not think that it is useful. Concentration ratios are already monitored, both on issuer credit risk and counterparty risk and it should not be part of the ST. UCITS regulation in general and MMF regulation in particular do impose very strict limitations on the investment policy and concentration ratios are tight and include both issuer and counterparty risk. Diversification has been identified as a key concept to grant the robustness of funds and to protect investors. The major holdings are identified and monitored as any other investment in terms of credit strength and liquidity level. We do not think that ST would show anything significant, considering regulatory requirements on (i) the cushion of cash available on a week and (ii) the concentration limits on non-governmental issuers. Stress testing short term govies raises political issues that reach far beyond the framework of the present consultation.

<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>

We understand that this question relates to counterparty exposure. As mentioned under question 3 we do not think that stressing collateral is helpful. Stressing collateral would represent a significant supplementary burden for a negligible added value, not to say for none. Collateral policies are strict and provide for haircuts, quality and maturity requirements, prior authorisation… and they are regularly reviewed. That system allows collateral to be exchanged daily for large amounts on the basis of a commonly agreed upon basis and it is vital for the fluidity of the financial market.

<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>

No. as mentioned under question 14 we do not consider that the additional scenario will bring any useful light on the risk really incurred by holders a MMF. Adding any complexity to the calculation of what a default means and which recovery assumption can be made will simply reinforce our opinion that this additional scenario should be abandoned. If it were not it would be necessary that ESMA provide a set of data that would uniformly apply for all MMFs on recovery ratio or indicate in the Guidelines that STs should be performed without taking recovery in consideration.

<ESMA\_QUESTION\_MMFST\_16>

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

<ESMA\_QUESTION\_MMFST\_17>

Historical data can be used to calibrate shocks, leading to common and simple hypothetical scenarios. We are surprised that ESMA discusses the change of exchange rates as well as interest rates, since under MMF Regulation we expect that all exchange rate risk be hedged.

<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>

We see the lack of appropriateness of the copy paste methodology when it is proposed to use EBA matrix. For MMFs the foreign exchange risk does not exist and it is unnecessary to build anything to assess what will by definition be nil. The counterparty risk relating to FX trades may exist but it is not a direct market risk. Furthermore, we see a total overlap when it comes to ”widening or narrowing of spreads among indices to which interest rates of portfolio securities are tied”. It is difficult to envision a case where such a move would not result from an adjustment of either the interest rate or the credit conditions and those have already been considered for ST. We suggest to conclude that IR and Credit risks cover the risk of change in spread with indices and that no further monitoring is required.

<ESMA\_QUESTION\_MMFST\_18>

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

<ESMA\_QUESTION\_MMFST\_19>

We think that redemption scenarios should be considered fund by fund, because the shareholding of each fund is specific. We agree to take into account the nature of the client investors, some categories being more stable and others more reactive or used to regular flows on a monthly or quarterly basis. We consider the distinction between retail and investors to be a minimal approach and would like to be able to rely on proven past comportment of individual clients or categories of clients. Historical data can lead us to challenge the 30% and 15% redemption rates which seem unrealistic over a week when considering the past even in stressed periods. A look at the concentration of holders, if known, is also relevant to assess probable and exceptional but plausible comportments.

<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>

We do agree with the self-assessment of the impact of stressed flows approach but we do not support the bucketing methodology. Moreover, the slicing is not as critical a point as when the fund follows a benchmark and has to replicate its composition. With MMFs it means that the AM must make sure that the liquidity profile of the fund after redemptions is not impaired. In that respect the distortion criterion is to be interpreted globally and with a dynamic view and subject to judgement and not quantitative measures.

We agree that the weekly liquidity is a relevant factor for ST. We do not conclude that this weekly liquidity ST should be conducted on a weekly frequency. It is for the AM to decide the appropriate frequency, at least twice a year according to MMF Regulation.

We do not think that the introduction of buckets is helpful to estimate the liquidity of assets. MMFs hold short term assets of quality which should be able to be disposed of within 1 week. The fact to reintroduce factors like credit quality or maturity that are stress tested independently does not bring clarity.

<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>

The example of reverse stress test that is presented seems overly complex to implement and we do not agree to put the distortion criterion in the algorithm. It is more a question of judgement based on a holistic approach (where barbells of maturities might be more efficient than slicing) when putting it in the algorithm implies a granular slicing creating false signals. A simple comparison between the weekly liquid assets and the potential weekly outflow is sufficient and more robust as it reduces the number of hypotheses that have to be made. More generally, we insist that the guidelines show examples of good practices, but cannot be considered as requiring anything that is not mentioned in the level 1 text, like for example reverse STs.

<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>

Yes. We agree that the concentration is higher with institutional clients which typically hold larger amounts than retail clients. Thus the risk is apparently higher with institutions and retail seems more stable. But the larger clients are better identified and tend to be individually served by salesperson who are often able to get advance notice of their future redemptions. For retail the statistical approach is the most efficient when there are data over a reasonably long period.

We agree that the split between institutions and retail is simple and we support it for ST purpose. In our view AMs should be able, even in the absence of a detailed reporting on the holders of the fund to establish the percentage in each of the 2 categories based on the distribution channels and the target markets for each fund.

When it comes to ST, we consider that the 15 and 30% ratios for redemptions over a week is terribly demanding, since historical data do not confirm those levels. We believe past statistics can justify different metrics.

<ESMA\_QUESTION\_MMFST\_22>

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

<ESMA\_QUESTION\_MMFST\_23>

The list of assets eligible in a MMF has been established in the regulation on the basis of their high quality (with the Credit Quality assessment) and their liquidity. We think that the list is extremely limited and that it is justified in order to ensure the robustness of MMFs and reinforce investors’ confidence in MMFs. We see as terribly incoherent a sign (that may cast doubt on the achievement of MMFR) the proposal to weight holdings in MMFs at a 75% ratio. Like UCITS, and most of them are UCITS, MMFs have a duty to serve redemptions immediately. That, most commonly, means a daily liquidity. It is highly surprising and totally unjustified to suggest that on a weekly liquidity horizon they cannot be considered up to 100% of their value. We read it as a typo error that shall be rapidly corrected.

<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. Amundi usually goes to the largest 3 holders of the fund. It is clear that there is no ned to conduct a specific ST when the concentration is so low that the total of the main 2 or 3 investors amounts to a single digit number of percentage points.

We should notice that AMs in some countries have not a complete and up to date knowledge of the holders of a fund. The usual practice is to build strong commercial links with large investors in order to be in a position to trace their movements even when they are domiciled in a bank or use a nominee. This relationship is the best basis to monitor the largest investors in a fund even if it does not ensure total certainty about the top 2 investors.

<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>

We think that market ST and liquidity ST need to remain independent and should be performed separately. We agree that different market ST can be combined together and that the same applies to different liquidity ST. We do not think advisable to try and combine liquidity and market STs.

Furthermore, if there is any will to introduce, despite the lack of power of ESMA in that matter, a mandatory exercise through standardised reporting a reasonable delay should be granted for AM to develop the necessary tools. In that period of time ESMA should first publish a very detailed reference data base to make sure that all MMFs are tested on exactly the same hypotheses. We would need at least 1 year after the publication of the last details before producing results of such a mandatory ST.

<ESMA\_QUESTION\_MMFST\_25>