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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.

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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 | ASSOGESTIONI |
| Activity | Other Financial service providers |
| Are you representing an association? |[x]
| Country/Region | Italy |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFST\_1>

Assogestioni, the trade body for Italian investment management industry representing the interests of members who manage funds and discretionary mandates around € 2,065 billion (as of September 2018), welcomes the opportunity to respond to the ESMA Consultation paper.

According to article 28 of MMFR, the stress test scenario shall at least take into consideration reference parameters that include different factors as listed in the article itself. In this context, ESMA is required to issue guidelines with a view to establishing common reference parameters of the stress test scenarios to be included in the stress tests. The guidelines shall be updated at least every year, taking into account the latest market developments.

ESMA is of the view that managers of MMFs should conduct common reference stress test scenarios, the results of which should be included in the reporting template mentioned in article 37(4) of the MMFR, in addition to that managers will conduct – taking into account the requirements included in the sections 5.1 to 5.7 (principle-based approach). According to ESMA “*The merits of including such common reference stress test scenarios are that this will allow ESMA and competent authorities to compare the results of the stress tests of MMFs across the EU, whilst allowing ESMA to update on a regular basis the calibration parameters of such stress tests to take into account market changes. The monitoring of the EU MMF market would therefore receive significant enhancement. These common reference stress tests would be univariate and multivariate*”. (ESMA34-49-103).

Therefore, ESMA proposes including in the second part of the Guidelines the methodologies, risk factors, data and calibration to be used for the common reference stress test.

We have fundamental issues with the ESMA approach where two sets (approaches) of stress tests seems required.

Since article 28 of MMFR deals, in general, with the stress testing, without any specific reference to the reporting to the competent Authorities, it is our understanding that the parameters that ESMA will indicate in the second part of the Guidelines disregard the reporting regime and will have a number of consequences, including:

* the already established and implemented processes are not in line with the requirements of article 28 of the MMFR and ESMA’s Guidelines published in March 2018;
* the common reference stress test should also be included in the “routine” of the internal risk management at a frequency determined by the board of directors of the manager of the MMF;
* the results of the common reference stress test should not be considered an “exercise” to be reported to the Authorities;
* the common reference stress test should be carried out independently of the reporting regime.

We understand that there may be substantial challenges in defining the common reference stress test that could provide valuable information to all MMFs. We would emphasize the importance of considering that the final aim of stress testing is to strengthen the single MMF's robustness whenever the results of its stress testing point to vulnerabilities; there is no “one size fits all approach” even if the stress test refers to a specific category of funds, such as MMF.

We believe that stress test conducted should be useful and functional to the internal risk management process and provide appropriate results that should be then assessed. The management company should be allowed to use stress test scenarios specifics to the managed MMF depending, for instance, on their strategy, underlying, investors and risk models. In addition, as MMF managers manage many different type of funds, they should also rely on their existing risk monitoring systems, where appropriate.

Where such flexibility is lost and the results of the two approaches are not complementary, as it could be with the common reference scenario, it would essential to evaluate the cost and benefit analysis of these approaches. We consider it inappropriate to request stricter or completely different processes in calibrating or measuring shocks only for comparison between different MMFs. In this context:

* we strongly disagree with the requirement to implement processes which are established under other sector specific regulations which are not standard for the asset management sector. In particular, we refer to the stress test for hypothetical levels of redemptions, where it is proposed to use the Basel 3 Liquid Coverage Ratio approach (LCR) to measure the ability to redeem holding at the request of investors in a short period of time. As far as we know, LCR is not used by asset managers and we believe that results of the stress would not be meaningful: the approach does not consider the tradable amount of each asset over a certain time horizon and it limits the type of assets to be considered (weekly liquid assets identified under the banking bucketing approach). Furthermore, the cost of imposing such a scenario would be relevant for MMF managers who are not covered by banking regulation;
* in the market there are a number of different practices to measure the impact of the different shock scenarios. Whatever the chosen option, this would result in additional costs for some players. ESMA should maintain the current approach taken in the Guidelines that allows, in line with the characteristics of different MMF managers, the possibility to use different approaches and risk models (proportional approach);
* additional scenarios are proposed in the consultation to further investigate some specific situations which are not strictly required under the MMFR, such as simulations of the default of the two main exposures or net redemptions of the two main investors of the MMFs. Again, even if the simulation of such scenarios could be appropriate for some MMFs, it should not necessarily lead to extending these stress tests to all MMFs.

In order to avoid unexpected consequences, additional operational procedures and costs for all different MMF managers, it is of the utmost importance to maintain the already implemented principle-based approach in ESMA’s guidelines to answer the question about methodologies and calibration.

Therefore, we believe stress test based on principle to be only appropriate and sufficient one.

We suggest that methodologies and calibration defined by ESMA in line with article 28(7) of MMFR could be used as further examples and not as an obligation for each MMF manager. Further input on methodologies, calibration and risk factors are really valuable and welcomed to the extent to a MMF manager could then select on a case by case basis, the most appropriate specific shock scenarios in line with his risk model. The results of the stress test applied by each MMF manager for the different factors, accompanied by a short text for the explanation, would therefore be the only one included in the reporting template mentioned in article 37(4) of the MMFR.

Finally, we invite ESMA to assess whether the need for common stress information from all MMF funds could be met differently. We would like to highlight how the information available under the reporting obligation in MMFR is very granular (unlike the AIFM reporting) and could also be completed with information from other European reporting regime (such as EMIR and SFTR). Before imposing common reference stress test, ESMA may find it useful to apply common stress test factors to these broad databases to compare the results.

That being said, if in any case ESMA would define common reference stress test, we suggest clarifying that:

* + it would entry into force in line with the time table for the first reporting period which is expected in Q1 2020;
	+ where the methodology and/or calibration of a common reference stress test does not fit for the MMF managed, the manager of the MMF should be able to carry out such stress test less frequently.

<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, we agree. The change in the value of assets due to stress test of one or more factors could be primarily measured on the NAV/portfolio and, consequently, we should not consider it necessary to stress its impact on liquidity, to the extent that it is already incorporated in the change in value of the NAV/portfolio. We therefore appreciate the ESMA approach in the CP where the market stress is measured primarily on the NAV.

It is to be noted that using the portfolio, rather than the NAV, is a common practice in the risk management systems. Such values should be considered equivalent for the stress test. In line with the Guidelines, we ask aligning all the references to the NAV with NAV/portfolio, where appropriate.

In line with above, for legal certainty, we propose amending also the para. 48 of the Guidelines (CP Annex IV, page 61) as follow: *“48. In terms of results of the abovementioned reported stress test, given that the two main goals of the stress tests are to measure the impact of given shocks on the NAV/****portfolio*** *and the impact on liquidity,* ***~~both~~*** *the impacts should be reported* ***as indicated below****.”*

<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 agree that certain assets such as cash (i.e. ancillary liquid assets hold in accordance with Article 50(2) of Directive 2009/65/EC - art. 9(3) MMFR), deposits (art. 12 MMFR) and collateralised transactions such as reverse repo (art. 15) and derivatives (art. 13) may not be stressed in all scenarios, especially in a multivariate stress test.

As a general comment, we would like to indicate that it would helpful keeping the common reference stress test simple and consider such positions, only where applicable and relevant. As an example, such assets should be considered in the stress test of i) hypothetical levels of redemption and ii) macro systemic shocks affecting the economy as a whole. Operational difficulties and costs relating to make common reference stress tests should be limited as much as possible because MMFs may have different level of exposure to such instruments and the risk management tools used by management companies also differs.

As regards shares of other MMFs, we would agree with para. 17 of the Guidelines where are identified different approaches to measure the impact of the individual stress test. We suggest clarifying that further approaches could also be used, such as, for example, the use of a standard factor.

With specific reference to cash and deposits, we agree with ESMA that all risk parameters that are to be stressed may not have an impact on these cash positions and therefore on the NAV/portfolio. It is worth noting that under the statistical reporting to the authorities, information on the amount of the deposits and their banks are already available. In any case, if some stress tests on counterparty risk on deposits is requested, we suggest including additional assumptions, such as appropriate recovery rates to cover all eligible credit institutions in a Member State or in a third country, including the depositary bank.

Derivatives transactions could have some limited market and counterparty risks and, in addition, the latter would become less relevant where such transactions are cleared by a CCP. In addition, with regards to OTC derivatives only institutions subject to prudential regulation and supervision and belonging to the categories approved by the competent authority of the MMF are eligible (art. 13(c) MMFR). We believe it is not necessary to stress them.

With regard reverse repo transactions, these are usually fully collateralised, and the collateral is a secondary guarantee that would operate in case of default of the counterparty, and until then, it would not impact the NAV/portfolio. In term of cost/benefit analysis we wonder if a collateral stress test in the common reference stress test would be of any value as the primary risk lies with the counterparty and that collateral comes only after. Also for reverse repo, ESMA would consider if the counterparty is subject to prudential regulation or the transactions are centrally cleared.

<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>

Regarding collateralised transactions (repo and derivatives), please see our response to Q2.

<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>

In line with our general comments, it is of utmost importance to maintain the implemented principle-based approach in ESMA’s Guidelines with respect to the calibration and measurement of the impact of the shock scenarios mentioned in article 28 MMFR.

In any case, for better comparability of results, we support the use of the same market stress parameters for all MMFs.

<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>

We agree with ESMA that the purpose of the MMF stress testing is different from the banking and insurance stress test because the objective is not to assess capital adequacy. We also recognize that some factors that could be used to MMF stress test could be similar. However, while for some stress tests, recalibration of banking factors could be appropriate, for others, references to banking practice should be avoided.

We refer, in particular, to the stress test for hypothetical levels of redemptions, where it is proposed to use the Basel 3 Liquid Coverage Ratio approach (LCR) to measure the ability to redeem holding at the request of investors in a short period of time. We believe that the output of this “weekly banking stress test” would not be meaningful for asset managers because the LCR does not consider the tradable amount of the different assets. Lacking such a fundamental factor, the stress test would lead to questionable results.

Furthermore, as far as we known, LCR stress test is not used by asset managers. This would impose additional costs, with specific reference to those asset managers who are not covered by banking regulation such as, but not limited to, independent asset managers.

To avoid any ambiguity, we support a stress test based on the ratio between the weekly liquid asset and the weekly outflows, but we suggest not to prescribe the LCR (please see also our response to Q20).

<ESMA\_QUESTION\_MMFST\_5>

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

<ESMA\_QUESTION\_MMFST\_6>

Type of issuer (government/corporate), rating, residual maturity/WAL (where applicable) are factors that could be used for the determination/calibration of shocks. In line with our general response, it should also be clarified that the new proposals could only be further examples and not obligations for each MMF manager.

In any case, we believe that credit rating agencies should not be mandatory, as it implies a certain amount of fees payable to agencies that are disproportionate to the informative nature of the ratings’ use in a stress test.

<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>

In line with our general comments, we strongly disagree to choose only one calibration method to measure the impact of the shocks on the MMF. In the market there are a number of different practices, some members prefer Option 1, other Option 2. So, whatever the chosen Option, this would result in additional costs for some players. Therefore, it is important that the calibration of stress tests should be based a case by case assessment without predetermined factors as already described in ESMA’s Guidelines.

In any case, as regard Option 1, we would provide some specific comments.

The Guidelines indicate that the discount factor should be applied to the price used for the valuation of the fund. It is to be noted that using the market value of the instrument, rather than the valuation price, is a common practice in the risk management system. Such price, that in some case could slightly differ from the valuation price, it is considered equivalent and appropriate for the scope of the stress test.

If the valuation price would be rather used (i.e. the asset shall be valued at the more prudent side of bid and offer unless the asset can be closed out at mid-market - article 29 MMFR) that would involve a material cost for the implementation of the systems. In term of a cost/benefit analysis such provision would lead to significant additional cost. We therefore propose the following amendments in the Guidelines (CP Annex IV, page 61):

*52. For each relevant security (i.e. corporate and government bonds), the discount factors should be applied to the* ***~~bid~~******market*** *prices* ***~~used for the valuation of the fund~~*** *at the time of the reporting, according to their type and maturity (see Table A and Table B), to derive an adjusted* ***~~bid~~*** *price (Bidadj): [...]*

*53. The manager of the MMF should estimate the impact of the potential losses by valuing the investment portfolio at the derived adjusted* ***~~bid~~*** *price, Bidadj, to determine the stressed NAV****/portfolio*** *and report the impact as a percentage of the reporting NAV****/portfolio****: [...]*

<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>

In line with our response to question Q2, we suggest excluding cash, deposits and collateralised transactions (repo and derivatives) from the stress test on liquidity.

<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>

We have no specific opinion on the calibration except that asset managers should have flexibility. In line with our general comment, it should be clarified that the new proposals could only be further examples and not obligations for each MMF manager.

Regarding Option 2, as far as we know, there are different market practices. Some companies adopt the same fixed stress factors (in absolute terms or as multiplicator) for different asset classes, while others adopt different fixed factors for different asset classes (100 to 250 bps). Volatility, spread level, issuer (government/corporate), rating and residual maturity could be elements to be used to define the appropriate stress factor for each asset class.

As indicate above, we believe that credit rating agencies should not be mandatory, as it implies a certain amount of fees payable to agencies that are disproportionate to the informative nature of the ratings’ use in a stress test.

<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>

In line with our general comment, it should be clarified that the new proposals could only be further examples and not obligations for each MMF manager. We would propose to keep simple the common reference stress test. So, we would prefer that the K-factor (discount factor or stress factor) would be independent from the amount of asset held by the MMF compared to its outstanding.

<ESMA\_QUESTION\_MMFST\_10>

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

<ESMA\_QUESTION\_MMFST\_11>

In line with our general comment, it should be clarified that the new proposals could only be further examples and not obligations for each MMF manager.

Rating, issuer (government/corporate), residual maturity/WAL (where applicable) could be factors relevant for the determination/calibration of shocks.

As indicate above, we believe that credit rating agencies should not be mandatory, as it implies a certain amount of fees payable to agencies that are disproportionate to the informative nature of the ratings’ use in a stress test.

<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>

In line with our general comments, we strongly disagree to choose only one calibration method to measure the impact of the shocks on the MMF. There are several practices in the market. So, whatever the chosen Option, this would require additional costs to some players.

In any case, some of our members support the credit spread parameter (Option 2).

We noted also that the current proposed drafting it is not clear on which exposure should be made the stress test: counterparty, issuer or issue exposure.

<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>

In line with our general comments, we suggest that all factors should be provided by ESMA for both Options 1 and 2 as examples for calibration methods.

In any case, even when a spread for an instrument is not available, and it would be challenging to measure its credit spread, we suggest that ESMA gives factor/spread instead of providing instructions on how to tie the securities to an index. In term of a cost/benefit analysis, the availability of such information would avoid the cost of getting the appropriate information related to the index from every single asset managers.

We therefore propose the following amendments to the Guidelines (CP Annex IV, par. 57, page 63):

*Option 2*

*• For each security, managers of MMFs should apply the increase in spread communicated by ESMA.*

***~~• If no spread is available for an instrument, managers of MMFs should use the shock on the reference index given by ESMA.~~***

*• For each security, managers of MMFs should translate the corresponding change in spread into a haircut.*

*• Managers of MMFs should measure the impact of the cumulated haircuts in percentage of NAV/****portfolio****.*

<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>

No, we do not agree. The proposed additional stress test would reflect an extreme stress event due to uncertainty on the solvency of the two main exposure considered at group level, including but not limited to collateralised transactions (repo and derivatives). In our opinion, the stress test on all the exposures would not add valuable information to information already gathered in the report to the competent authorities. In our understanding, the high level of granularity requested in such existing report, where information on each single position held by MMF would be available, would allow the same competent authorities to simulate the default of the funds’ two main exposures for the different MMF with a more consistent approach.

Furthermore, defaulting the two main exposures could be a simplistic assumption because neither the waterfall effects nor the case when then MMF is authorised to invest up to 100 % of its assets in government bond are taken into consideration. We would support therefore to keep the common reference stress test simple.

<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>

In line with our previous response to Q2, collateralized instruments, should be excluded from the stress test.

<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>

If an additional stress scenario is requested, we suggest ESMA should giving the recovery rate in the Guidelines.

<ESMA\_QUESTION\_MMFST\_16>

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

<ESMA\_QUESTION\_MMFST\_17>

In line with our general comment, it should be clarified that the new proposals could only be further examples and not obligations for each MMF manager.

Rating, issuer (government/corporate), residual maturity/WAL (where applicable) could be factors relevant for the determination/calibration of shocks.

As indicate above, we believe that credit rating agencies should not be mandatory, as it implies a certain amount of fees payable to agencies that are disproportionate to the informative nature of the ratings’ use in a stress test.

<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 do not like as a matter of principle the idea that ESMA should apply to the asset management sector parameters that have been deemed relevant for banks. However, once calibrated for the MMF scenario, the EBA scenario appear to be covering all the parameters needed for the stress test.

<ESMA\_QUESTION\_MMFST\_18>

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

<ESMA\_QUESTION\_MMFST\_19>

On the assets side, we strongly disagree with the proposal to apply risk weights established under banking law in order to measure the liquidity cover ratio (LCR) of banks (please see our response to Q20). On the liability side, we agree with ESMA to use type of investors (retail/institutional) as factor.

<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, we disagree with the methodology for the calculation of the weekly liquid assets in which the Liquidity Cover Ratio approach applied in banking regulation is proposed for a MMF.

As far as we know, this bucketing approach is not standard in the asset management because it does not consider the tradable amount of each asset over a certain time horizon. So, the credit risk is overestimated (for example Credit Quality Steps should be used) with respect the liquidity risk, meaning in the sense of the time to liquidate the position. In addition, MMFR deals with the issues of liquidities (art. 24 or art. 25 of MMFR) in another way than such banking bucket approach and it limits the types of asset to be considered to the weekly liquid assets (please also see our response to Q21). Finally, the cost of imposing such a scenario would be relevant for asset managers who do not deal with banking rules and should outsource the calculation to third parties.

To understand the MMF capability to face redemption pressure, we therefore suggest changing the “weekly stress test”, deleting the computation of the weekly assets with the LCR approach and the slicing technique.

We propose therefore that the Guidelines only clarify that the position that could be liquidated should be assessed taking into consideration a discount factor, where appropriate. It is to be noted that this proposal could distort portfolio allocations.

In any case, if “weekly stress test” is adopted we have the following observations in the Guidelines (CP Annex IV, page 65):

* The reference to “MMFR” in the table is not clear. For example, “*Financial instruments issued or guaranteed by the institutions set out in Article 9(1)(a)* ***or the MMFR***”
* If comparability is essential, it should be deleted par. 63 “*It is important to note that the liquidity of any asset classes should not be taken for granted. It should always be checked in an appropriate manner: if there is any doubt regarding the liquidity of a security, the fund manager should not include it in the weekly liquid assets.*”

We would also like to provide ESMA with specific comment on the reverse liquidity stress test.

With regard to the reverse liquidity stress test, it is our understanding that the MMF, after a certain percentage of outflows, should be able to comply with all requirements specified in article 24(1) (for a short-term MMF) or in article 25(1) (for a standard MMF) and not only with the weekly assets defined in article 24(1)(e) and (f) or 25(1)(d) and (e). In other words, it should also comply with WAM or WAL limits. In line with the above, we propose the following amendments to the Guidelines (CP Annex IV, page 64):

Reverse liquidity stress test. Par. 61. “*In that scenario […]* ***~~weekly liquid~~*** *assets requirements specified in Article 24(1)* ***or 25(1), as applicable,*** *should be met*.”

<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>

In our view, both stress tests proposed on the level of redemption are only marginally related to “weekly liquid assets” requirements specified in article 24(1)(for short-term NAV) or in article 25(1) (for standard NAV). These limits are based on the contractual characteristics of the different assets and, in order to comply with these requirements, a specific self-assessment on the tradable amount or on impact on the price is not required. In fact, in line with article 24(1)(e) or 25(1)(d) these assets may be weekly maturing assets, reverse repurchase agreements which are able to be terminated by giving prior notice of five working days or cash which is able to be withdrawn by giving prior notice of five working days. Other assets could also be included in the “weekly liquid assets” requirements, where compliant with articles 24(1)(f) or 25(1)(e).

In the stress scenario on hypothetical levels of redemption, we could agree with ESMA, when, in line with its mandate, it proposes a stress test that takes into consideration: i) all assets, and not only those one who comply with Article 24(1) or Article 25(1); ii) an estimate of the tradable amount and the impact on the price.

<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, it is a fact that the behaviour of retail and of institutional investors differ, especially under stressed market conditions.

<ESMA\_QUESTION\_MMFST\_22>

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

<ESMA\_QUESTION\_MMFST\_23>

As indicated above (Q19,Q20), we do not support the LCR approach. A different weight calibration would not solve the problem.

<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>

In general, we suggest keeping the common reporting stress test simple. We note that such additional stress test would not be relevant for MMFs where the investor base is diversified. Furthermore, we doubt that this stress test could be meaningful when the MMF clients are represented only by institutional investors of the same group, where there is a strong relationship between manager and investors.

Therefore, if the additional stress test were to be an option, and we do not recommend it, we suggest limiting the analysis to when the MMFs complies with the following conditions: i) it has clients not belonging to the same group; b) the amount held by the two main investors exceeds a certain threshold (such as the amount of the corresponding weekly liquidity requirement of an MMF as indicated in article 24(1) or 25(1) of MMFR).

There would be no added value to simulate another outflow scenario unless the aggregated holding of the two main investors exceeds the outflow scenarios either provided by ESMA for example or the historically calibrated scenario selected by the manager.

<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>

In line with our general comments, it should be clarified that the new proposals could only be further examples and not obligations for each MMF manager.

In any case, we agree with ESMA to keep the methodology simple, especially for the 2018 Guidelines and we have the following observations (CP Annex IV, page 65).

* + “Assess the impact of the redemption shock on weekly liquid assets”: the reference to “weekly liquid assets” should be clarified. In our view, the weekly liquid assets are those calculated for the “weekly liquidity stress test” in the stress scenario on hypothetical levels of redemption rather than the weekly liquid assets referred to article 24(1) or 25(1) of MMFR.
	+ the general principles on the methodology indicated in the CP, should include the following; when necessary, some risk factors will be excluded to avoid double counting (e.g. credit risk factor and spreads).

<ESMA\_QUESTION\_MMFST\_25>