|  |
| --- |
| 29 March 2021 |

|  |
| --- |
| Response form for the Consultation Paper on the EU Money Market Fund Regulation – legislative review |
|  |

|  |
| --- |
| Date: 29 March 2021 |

**Responding to this paper**

ESMA invites responses to the questions set out throughout this Consultation Paper and summarised in Annex 3. Responses are most helpful if they:

1. respond to the question stated and indicate the specific question to which they relate;
2. contain a clear rationale; and
3. describe any alternatives ESMA should consider.

ESMA will consider all comments received by **Wednesday 30th June 2021.**

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

**Instructions**

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

1. Insert your responses to the consultation questions in this form.
2. Please do not remove tags of the type <ESMA\_QUESTION\_MMFR\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
3. 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.
4. When you have drafted your response, name your response form according to the following convention: ESMA\_MMFR\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_MMFR\_ABCD\_RESPONSEFORM.
5. 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 EU Money Market Fund Regulation – legislative review’).

**Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. If you do not wish for your response to be publicly disclosed, please clearly indicate this by ticking the appropriate box on the website submission page. 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 ‘[Data protection](https://www.esma.europa.eu/about-esma/data-protection)’.

**Who should read this paper?**

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

# General information about respondent

|  |  |
| --- | --- |
| Name of the company / organisation | AMUNDI Asset Management |
| Activity | UCITS Management Company / AIFM |
| Are you representing an association? |  |
| Country/Region | France |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFR\_1>

Amundi is the European largest asset manager by assets under management and ranks in the top 10 globally. It manages 1,729 billion euros of assets, as of end of 2020, across six main investment hubs in Boston, Dublin, London, Milan, Paris and Tokyo. 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, Amundi was listed in November 2015.

Amundi is alsoa leading and longstanding actor in managing liquidity funds, with 222 billion euros of assets as of end of 2020, out of which 180 billion euros of money market funds (MMFs). **Amundi is notably the world largest manager of euro-denominated MMFs, with 175.4 billion euros of assets as of end of 2020.** Most MMFs under its management belong to the VNAV (Variable Net Asset Value) type category and are domiciled in France. It also operates in the LVNAV (Low Volatility NAV) MMF market by offering two Luxembourg-domiciled, AAA-rated funds, denominated in euro and USD respectively.

We then welcome the opportunity to provide a response to this Consultation Report on the EU Money Market Fund Regulation (MMFR). MMFR, published in June 2017, entered into application in July 2018 for newly created MMFs, and early 2019, for already existing ones, i.e. only months before the outbreak of the COVID-19 crisis.

This new regulation, which is the outcome of intense discussions between number of stakeholders, has succeeded in providing a well-balanced set of rules adapted to the unique features of European MMF market, such as:

* Two different, but comparable in size, formats: **VNAV and LVNAV** (ex-CNAV), accounting for nearly 94% of the market[[1]](#footnote-2).
* Three currencies significantly represented (EUR, USD and GBP), with now **two of them outside of the European System of Central Banks supervision**.
* Three countries (Luxembourg, Ireland and France) domiciling most of the MMFs.

**We are convinced that MMFR helped European MMFs to face the COVID-19 crisis in a strong and resilient shape.**

This being said, the COVID-19 crisis and its aftermath have clearly changed the context of MMFR reviewing process, as provided in its article 46. With little doubt, in the absence of this tremendous, unprecedented, exogenous shock, much less attention would have been given to MMFs.

Hence, we strongly believe that no efficient step will be taken in the area of MMFR or, more generally, in the money market space, if the specificity of the pandemic is not factored in during this crucial process.

First, we would like to recall the strong benefits unanimously granted to MMFs as key players in the economic and financial environment:

* By purchasing and, most of the time, rolling, a significant part of money market instruments (including financial and non-financial Commercial Papers), MMFs represent a key, stable, reliable, strongly-regulated source of funding for real economy, particularly in the private sector.
* By providing their shareholders with diversified, low volatile, competitive collective schemes, MMFs are seen as the most efficient means to invest excess liquidity.

Second, it is admitted that the COVID-19 pandemic has triggered a **liquidity crisis**, not a credit crisis, which makes a huge difference when compared with the Great Financial Crisis (GFC) of 2007-2008. This fundamental point should be taken into account when reflecting on what will have to be reviewed in MMFR.

In light of this, we would like to stress the following points:

1. No defiance has been addressed towards MMF industry:

* We saw a significant bounce of MMF market size once the measures to support economy and to provide funding relief were decided and implemented by both political and financial authorities.
* As an example, French Corporate Association (AFTE) have continuously expressed their confidence in French MMFs and confirmed that the sole and vital need for cash justified the sizeable redemptions that occurred in March / April 2020.

2. Money Markets practically stopped functioning in the course of March 2020, dried up by the sudden and massive need for cash, triggered by the drop – if not the overnight disappearance - in revenues that numerous economic actors (mostly, but not only, corporations) had to cope with. This unprecedented situation generated a rapid domino effect, where:

* Shareholders massively withdrew their money from MMFs and/or drew down credit facilities they had contracted with banks. In a very short period, MMFs stopped playing their usual role as a structural purchaser of Commercial Papers (CPs). At the same time, banks refrained from providing bids in front of an inflating level of requests, as their liquidity and solvency ratios were swiftly deteriorating.
* An additional wave of sales amplified the market stress, as MMFs had to rebuild their liquidity buffers, which had been lowered by initial, non-expected, redemptions.

3. Consequently, we share the very common view that the whole ecosystem of money markets faced its most serious liquidity challenge during the COVID-19 crisis. Then, had this revealed any vulnerabilities, it would be more than useful to find and fix them at the money market level, rather than in the sole area of MMFR.

Lastly, Central Bank interventions, though important in the resolution of the situation, have to be deeply analyzed in order to dissipate any interpretation that could lead to unfitted, if not dangerous, reforms.

Therefore and in light of the above:

1. It should be reminded that the decision by ECB, announced in March 2020, to purchase money market instruments (MMIs) with less than 6-month maturity, appeared as an additional layer of its Quantitative Easing Policy (Asset Purchasing Program) implemented long before COVID-19 crisis occurred. Indeed, Asset Back Securities Purchasing Program (ABSPP), Public Sector Purchasing Program (PSPP) and Credit Sector Purchasing Program (PSPP) were launched respectively in 2014, 2015 and 2016. It means that practically all the segments of the fixed income non-financial, high-quality instruments had already been targeted by the QE non-standard policy when the COVID-19 financial crisis broke up. Money markets had been until this traumatic event, “spared” by the APP (Asset Purchase Program) and proved they had not required any support during the different market turmoil episodes that had occurred since the GFC.

2. The specificity of operational transaction chains that characterize MMIs, especially commercial papers, explains that it took some time for the different NCBs to implement this part of the Pandemic Emergency Purchasing Program (PEPP). The emergency of the situation then prevailing, combined with the need to step in an unexplored market (compared with bonds) can justify a perceptionof excessive stress which surrounded this unusual intervention.

3. We thus consider that the operational issues that ECB and NCBs had to face when implementing their purchases of CPs, may have negatively impacted the assessment of the vulnerabilities identified throughout the different studies published in the aftermath of March / April 2020 crisis;

**Consequently, we believe that the regulatory response to COVID-19 crisis should pursue two objectives:**

1. Improve money markets liquidity on the front of both actors and instruments, acting on:

* + Market transparency,
  + Instruments standardization,
  + Eligibility to ECB refinancing operations,
  + Favoring Dealers’ market making
  + Contingency plan,
  + Consolidation of the link between money market players and Central Banks.

2. Enhance MMFs’ resilience by providing targeted additional rules or adjustments to MMFR, with no need, in our view, to re-open the level 1 text. These actions should mostly focus on liability management of MMFs (Know Your Customer, Liquidity Management Tools).

Against this background, we urge ESMA to recommend to the European Commission a very prudent and targeted approach in terms of potential amendments to MMFR. We would also like to stress the **key messages** that are further developed in response to the questions below:

* + **Article 27, on Know Your Customer (KYC) could be clarified and enriched through level 2 or 3 additional texts, as it is already the case for Credit Quality Assessment.**
  + **Under the above proposition, asset management companies would assess their own need for an additional bucket of liquid assets. The level of this additional liquidity buffer would derive from each MMF’s stressed liability structure. Moreover, the assets to be considered as “liquid”, thus eligible to the composition of the liquidity buffer, would have to be defined. These evolutions could be specified through the aforementioned level 2 or 3 guidance.**
  + **Adjustable exit fees could be made mandatorily available for all MMFs, as a Liquidity Management Tool (LMT) used in times of exceptionally stressed market conditions.**
  + **Article 35, on External Support, does not need to be re-opened, despite the existence of an unlevel playing field between the EU and the US stemming from their different regulatory approaches.**
  + **Any capital-requiring measure, such as the creation of a “Liquidity Exchange Facility” would be disruptive and deeply harmful to MMFs.**

<ESMA\_COMMENT\_MMFR\_1>

1. i) Do you agree with the above assessment of the difficulties faced by MMFs during the COVID-19 March crisis? Do you agree with the identification of vulnerabilities? ii) What are your views in particular on the use of MMF ratings by investors? Are you of the view that the use of such ratings has affected the behaviors of investors during the March crisis?

<ESMA\_QUESTION\_MMFR\_1>

**Response to Q1 i**)

Points 22 to 37:

We globally agree with most assessments made in the points 22 to 37 of the consultation document.

However, it seems to us that all these elements have to be put into perspective: indeed, as a sub-category of fixed income market**, money markets differ from broader bond market** in a number of structural and technical features, which are the following:

* Mostly buy-and-hold driven.
* Low volumes on secondary market (most of the time).
* Limited number of players.
* Specific settlement channels.
* Modest arbitrage opportunities.
* Limited range of maturities.

In other words, any assessment and related recommendation on money market functioning should integrate these features. Notably, one should admit that during “normal” time, i.e. in the absence of market stress, **volumes on secondary market are structurally low, while liquidity – defined as the rapidity and easiness to sell a position – remains high.**

As mentioned earlier, we do believe that Covid-19 crisis has revealed a need for improving money market **liquidity**, not necessarily through a rise in daily volumes.

In our view, money markets need to be better prepared to face a liquidity crisis. To reach this objective, we suggest acting on different fronts:

* Improve market transparency.
* Incentivize dealers to provide bids on a continuous basis.
* Facilitate the use of money market instruments as a means to access Central Bank’ liquidity, either through refi operations, or through Asset Purchase Program (APP).

Point 38 to 49:

As described in the report on Trends, Risks and Vulnerabilities published by ESMA on March 2021 (n°1, 2021, p62, RA.4 “MMF size**”), a significant part, roughly 85%, of CNAV / LVNAV type of MMFs is denominated in non-EU currencies, i.e. USD and GBP.**

Amundi’s footprint on this market is quite modest (less than 2% of our MMFs’ assets). However, we would like to make a few general points regarding the regulatory constraints raised in this part of the consultation document:

* The introduction of both 20bp-collar and fees/gates set-up is the counterpart for maintaining the cost-amortization methodology in LVNAV-type MMFs and, as such, is a key feature of the reform introduced by MMFR.
* While the points 46 and 47 raise the risk of a first-mover advantage, or pre-emptive runs driven by the fear of seeing either **fees or gates** activated, the following points 83 and 84 only deal with fear of **“suspension/gates”.**
* In our opinion, indeed, **suspensions and gates embed the same traumatic effects**, as they constitute an extremely disrupting weapon to address the liquidity of a collective scheme, especially when it comes to MMFs.
* In other words, we believe that the risk of runs will materialize instantaneously should shareholders of a given MMF **start anticipating that gates could be activated in a near future.**
* While the materialization of such an anticipation can be linked to several elements, the shrink of an LVNAV’s WLA (weekly liquid assets), publicly visible as required by article 36 of MMFR, can indeed be a key trigger.

**Response to Q1 ii)**

Points 50 to 57:

Though we globally agree with these different points, we do not have a clear view on the possible impact of the constraints that CRAs impose in exchange of the AAA label. Indeed, as for topics covering CNAV/LVNAV issues, only a tiny part of our MMFs is rated, and an even tinier part is granted the AAA-rating label.

The only points we would like to make are the following:

* Again and obviously, any additional rule to comply with, especially during times of stressed markets, may diminish the number of options available to manage an MMF. CRAs’ constraints – not only the ones linked to the credit quality / ratings of MMF’s holdings – generate additional rules to follow.
* As an example, basic operations like purchases or sales of assets may trigger some breaches to a CRA’s rules. While in normal conditions alternatives are easy to find, it may be more challenging in time of market stress to comply with each piece of CRAs’ guidelines.
* Cumulating several ratings, especially the “AAA” one, commonly seen as a label where any downgrade is perceived as a withdrawal of this label, endangers, by nature, the stability of an MMF, as it constraints its capacity to react in periods of turmoil.

<ESMA\_QUESTION\_MMFR\_1>

1. i) Do you agree with the above assessment on the potential MMF reforms related to the review of the MMF Regulation? ii) What are your views on the abovementioned assessment of the interaction between potential MMF reforms and the behaviour of investors during the MMF March 2020 crisis?

<ESMA\_QUESTION\_MMFR\_2>

Points 58 to 67:

Though we globally agree with most points preceding this question, we would like to raise some concern regarding some assessments made in points 59, 63 and 72:

Point 59:

* We disagree with the view that the objectives of the measures taken should *“ensure that regardless of the market conditions, they can operate without impacting financial stability”*.
* **As market-invested instruments**, how could it be possible that MMFs “operate regardless of the market conditions”? Similarly, it is suggested that MMFs “impacted financial stability”.
* We also disagree with such a conclusion that insulates MMFs within the overall short-term markets, and even the global financial markets.
* We definitely think that what impacted financial stability during the Covid-19 crisis is the Covid-19 crisis itself: it happened at the very moment when the market participants realized they were facing a pandemic with immediate devastating effects on large parts of the real economy.
* Money markets’ liquidity drop appeared to be one of the most visible effects of this dramatic change in market assessment of the pandemic.
* Though MMFs were inevitably part of this change in liquidity regime, they were among the most impacted actors, and eventually managed to maintain a continuity in the precious service they provide to their users.

Point 63:

* In this point, it is assumed that MMFs *“bear greater risks as compared to cash deposits”.* We consider that it is **misleading to compare MMFs with cash deposits** on a strict risk standpoint.
* We would like to recall that MMFs provide their holders with **diversified, high quality, short-term investments.**
* The associated risks of such products come from **market volatility**, which generally stands at an extremely low level given the specificities of the defined MMFs’ investment universe.
* On the reverse, cash deposits are banks’ balance-sheet “products”, where clients are exposed to a different, **much more asymmetric,** regime of risk: no volatility at all, full liquidity, as long as the bank is not in a resolution mode. Where the latter happens, the **whole capital left in the deposit is suddenly at risk.**

Point 72:

* We fully agree that a/ MMFs economic functions (cash management and short term funding to issuers) should be preserved, and b/ **costs and risks implied by the intermediation function offered by MMFs need to be clearly and repeatedly acknowledged**.
* However, we do believe that the short-term market ecosystem, including MMF managers, does not differ from any other part of financial markets when assuming any (implicit) reliance on central bank support.
* On the contrary, MMFR has allowed for MMFs to navigate in very unstable market conditions, of which Covid-19 crisis was an emblematic and extreme example.
* **This means that moral hazard did not drive money market participants ahead of Covid-19 crisis**. This is, in our view, a key assessment when analyzing last-year crisis, and when drawing the conclusions that will ultimately lead to efficient and balanced reforms.

As a preliminary remark, we would like to re-affirm the need to address the money markets issues as an ecosystem, which includes not only MMFs, but also some others keys actors like:

* Dealers.
* Banks, as big issuers of CP.
* Non-financial corporates and Institutions, as both issuers of CP and key shareholders of MMFs.
* Central Banks.

Our strong conviction regarding MMFR review is the following:

* No reform targeting the asset management (and not the asset side) of MMFs will help enhancing their autonomy without **damaging their intrinsic features and the benefits they provide to both issuers and investors** within the short term fixed income markets. We indeed consider that the existing set of rules have helped MMFs to navigate during the COVID-19 crisis. Moreover, no issue regarding MMFs’ portfolios structure (quality of holdings, liquidity ratios, weighted average maturity or life) was at stake during the March / April 2020 critical period.
* On the reverse, had any adjustment to be contemplated, we strongly believe they should cover the area of the liability management of MMFs. As mentioned above, we consider that MMFR provides MMFs with an efficient set of rules when it comes to eligible instruments and portfolio management rules. **These rules represent a solid means for MMFs to dispose there assets as long as underlying markets keep on functioning**. Thus, the main issue at stake has to do with MMF’s autonomy when markets’ liquidity is deteriorating. Our view is that this autonomy can be improved **1/by having a better, deeper knowledge of MMFs customers, and 2/by making available a tool, activated only in exceptional circumstances, that will incentivize customers to exit a fund only when absolutely needed.**

When listing the four potential reforms contemplated in the consultation document, we think that each of them should be analyzed **through the lens of the liability management of an MMF**. Our responses for each of these potential reforms will then follow this approach (see below).

<ESMA\_QUESTION\_MMFR\_2>

1. Do you agree with the above assessment of the i) potential need to decouple regulatory thresholds from suspensions/gates and the corresponding proposals of amendment of the MMF Regulation ii) potential reforms of the conditions for the use of redemption gates? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_3>

Points 83 à 90

* As mentioned earlier in our response to Q1, it should be reminded that fees and gates rules, as they were designed in MMFR**, target the sole CNAV / LVNAV types of MMFs as a** **counterpart of the specific valuation methodology applied by these MMFs, which includes the cost amortization of certain holdings.**
* Our perception is that the sole monitoring of a declining WLA – made possible by the article 36 of MMFR on Transparency – may favor pre-emptive redemptions by investors in periods of stressed markets. **This risk is fairly described in the point 108.iii of the consultation document.**
* The point 84 of the consultation document refers to studies that established a link between i) WLA downward trend and ii) redemption upward trend.
* Our view is that this observation, though quite intuitive, does not necessarily means that the existence of the regulatory thresholds (triggering mandatorily fees and/or gates) fully explains this correlation. At least, we can expect that this tie may amplify it.
* Given our limited footprint in LVNAV market, **we have not come to a clear conclusion on the necessity, or not, to reopen the article 34** which *“links the level of WLA with the mandatory activation of fees and/or gates”*
* In light of our experience during the Covid-19 crisis, we have not detected any pre-emptive redemptions from our clients, that could have been motivated by a fear to be gated otherwise,

As regards the different options listed in points 86 and 87, we see a real challenge in reforming the existing rules covering LVNAV / fees and gates - that are specifically linked to accounting methodology matters - separately from the possible introduction of Liquidity Management Tools, like swing-pricing or any other anti-dilution levy (ADL) for all types of MMFs (i.e. including VNAV).

<ESMA\_QUESTION\_MMFR\_3>

1. i) Do you agree with the above assessment of the potential need to require MMFs to use swing pricing and / or ADL / liquidity fees and the corresponding proposal of amendment of the MMF Regulation (including the above list of corresponding potential benefits and drawbacks)? ii) If you are of the view that swing pricing might not be workable for certain types of MMFs, which instruments would you suggest as an alternative for these types of MMFs going forward? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_4>

Points 91 to 106:

On a general standpoint, we do not have particular comments on the different points – 91 to 106 - preceding the question Q4, but, more generally, the following:

* Any decision to impose a mandatory resort to a tool that may restrain the liquidity of MMFs should be made on a very cautious mode, paying a great attention to MMF users’ views and reactions on this possibility.
* Indeed, Liquidity Management Tools (LMTs) and MMFs represent elements that seem to be quite antinomic at first glance, as MMFs are considered as the most liquid and easily accessible collective schemes made available to investors.
* This should not be underestimated when considering requiring from MMFs any resort to LMTs, on an investor prospective.
* Until now, **no liquidity restriction has ever been activated in any European MMF, including during the GFC.**
* Among the main categories of LMTs, **gates are perceived as a traumatic event, comparable to NAV suspensions.**
* As a reminder, and as long as UCITS MMFs are concerned, suspensions are already mandatorily present in legal documentation.
* Thus, imposing gates as native in prospectus, would provide no significant change in the current regulatory framework.

Against this background, our view is that **only ADLs offer the following advantages**:

* They can be activated while limiting, but not excluding, the risks of side effects due to their traumatic impact on MMFs’ shareholders.
* They provide a virtuous effect by limiting potential pre-emptive redemptions in periods of stressed market.
* They ensure a fair treatment of MMFs’ shareholders during periods of turmoil.

To sum-up, only ADLs would provide a real and workable improvement in MMFs’ autonomy, which should remain the overarching goal of this reforming process.

**Among the different types of ADLs, we have come to the conclusion that only adjustable exit fees would prove efficient and operationally workable while dealing with specificities of MMFs like same day settlement, high level of liability turnover or the fact that they are unfitted for over-engineered rules**.

Therefore, we consider that MMFR could require that all MMFs should be equipped with an exit fees set-up in their legal documentation.

In terms of implementation procedure of the exit-fees, the following points should be made:

* As mentioned in points 91 to 106, there are different ways of implementing ADLs, each of them embedding pros and cons.
* Should exit fees be applied on a discretionary mode by Asset Managers? In such a case, there would be a risk of stigma / reputation that asset managers would have to weigh, **possibly leading to an absence of action.** Correlatively, any decision by a single asset manager to activate exit fees could prompt pre-emptive redemptions in MMFs perceived as the next in the list.
* Should exit fees application be decided by an external entity? Given the abovementioned comments, we consider this option worth being explored further. In that case, the decision process would have to be precisely defined. Notably, which body would be entitled to activate the exit fees? Locally or globally? At the Industry Associations request?
* Should exit fees be defined and activated under a rule-based mechanism? As for the ones implying a discretionary decision (whether by internal or external body), a rule-based approach would embed advantages and drawbacks. On the top of all benefits of ADLs, already described, a rule-based exit-fee mechanism would be operationally easy to implement. The main drawback would lie in the risk that its automatic triggering could cause unexpected negative consequences (see debate on tie between WLAs and triggering of gates / exit fees, for LVNAVs).
* The difficulty to answer the fundamental questions listed above is well highlighted when reading the content of the point 104 of the consultation document. Indeed, it is first envisaged that LMT could be activated by “*an external party such as a regulator”*, and is immediately followed by the mention *“It should however be emphasised that the decision to use such liquidity mechanisms shall, in general, remain the responsibility of the manager of the MMF”*.
* This being said, we do believe that, prior to the effective implementation of any ADL in MMFs, a **significant improvement in money market transparency will have to be achieved**, so LMT triggering and related calculations will rely on accurate and unquestionable market indicators.
* Last but not least, and as previously mentioned, the introduction of an LMT in MMFs’ documentation will have, with no doubt, significant, but unpredictable in its consequences, impact on investors’ behaviour. We thus believe that the calibration of such a tool is key. It will have to reflect the cost of liquidity, as measured when exit fees are applied. Back to Covid-19 crisis, during the period when money markets’ liquidity was rapidly vanishing, it can be assumed that the cost of liquidity has never exceeded figures like 20 to 30bps on average.

<ESMA\_QUESTION\_MMFR\_4>

1. i) Do you agree with the above assessment of the potential need to increase liquidity buffers and/or make them usable/countercyclical and the corresponding potential proposal of amendment of the MMF Regulation? ii) With respect to option 1 above, views are sought in particular on the relevant threshold (on the size of redemptions) from which WLA would need to be automatically adjusted. When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_5>

Before answering these questions, we would like to make some preliminary comments regarding the points 107 to 118.

* Firstly, as already mentioned (see response to Q3), the point 108.iii rightly underlines that the “*potential scrutiny resulting from public disclosure of low WLA amounts”*, may represent a reason for asset managers to keep liquidity buffers well above the minimum regulatory thresholds.
* Indeed, though disclosing MMF’s features - as required by article 36 on Transparency – remains a useful measure adopted by MMFR, it may generate undesired pro-cyclical effects during periods of stressed markets. This concern seems to lie in the points 113 and 115 of the consultation document, when outlining the option 2: *“To avoid any non-intended consequences, the buffer would be non-public (option 2)”*, or *“in order to limit any trigger effect, the counter-cyclical buffer and the liquidity position would not be made public”*
* Secondly, in the point 111, it is envisaged that a *“relief from WLA requirements could be granted”* by regulatory authorities, in certain circumstances. In our view, such statement by authorities, presumably in time of turmoil, could also have unintended pro-cyclical effects.
* Indeed, while such statements (i.e. granting temporary relief from a given prudential or liquidity ratio) have been quite usual in the banking sector, we may fear that similar announcements targeting MMFs could trigger some pre-emptive redemptions, and possibly runs.
* Lastly, the “option 2”, outlined in points 112 to 118, seems interesting. However, we strongly believe that any additional liquidity buffer should not derive from stress tests, as defined in Article 28 and its related RTS (Regulatory Technical Standards), nor being imposed by regulators (see below our detailed comment and suggestion on this).

Regarding the first part of the question, we do believe that current liquidity ratios do not need to be increased in MMFR, as, with no material doubt, this measure would have provided no help during the Covid-19 crisis, in March 2020. We consider these levels were fairly calibrated during the process that led to the publication of MMFR.

This being said, we believe that these “buffers” should be made usable / countercyclical. This leads us to formulate the following comments:

* **It is striking to see that the word “buffer” does not appear in MMFR**. This shows that the intention of the regulator was to impose a hard floor to WLA and DLA (weekly and daily liquid assets).
* Our view on the matter is that 1/ the minimum levels for weekly and daily liquid assets should keep on being treated as “ratios”, rather than “buffers”, but 2/ there is a need to clarify the way any passive breaches of these ratios should be handled by the asset management company.
* Then our proposal would be that: where one of the two liquidity assets of a MMF breaches its regulatory limit for more than two or three business days, **the asset management company would be required to directly notify its NCA. Then, it would enter into bilateral talks aimed to define for how long and in what extent the breach(es) are allowed to last.**
* The rationale of our proposal is: it seems that such a procedure would allow for the asset management company to effectively “use” its liquidity buckets under the strict control and monitoring of its NCA. It will also prevent any unintended effect that could be triggered by an official announcement relaxing the WLA or DLA requirements.
* In addition, we also support the introduction of contracyclical liquidity buffers, described in points 112 to 117 but in a different way it is envisaged in option 2, (see below): we indeed globally agree with the principle that the size of liquid assets held by a MMF should always depend on its liability structure.
* However and as mentioned above, **we disagree with the view expressed in point 112** whereby the size of this buffer should 1/*”be calibrated by the regulator”*, 2/ result from *“stress tests performed by MMF managers in accordance with shocks defined by the regulators”, and 3/”would not need to be fund specific”.*
* Indeed, we consider that the asset manager is by far the best placed entity for designing the procedure describing the mechanism leading to the calibration of this liability-driven additional buffer. **This is based on our strong believe that, to be efficient, such a process would require a daily monitoring of changes in the liability structure of the MMF along with permanent intelligence of clients‘ intentions**. **This goal can be achieved only internally, using assets manager’s proprietary tools**.
* Moreover, it seems imperative that such a calibration should be **performed at each fund level**, since the **liability structure of each MMF is specific** and so should be the calibration of the corresponding buffer.
* **MMFR’s Article 27 (“Know Your Customer”) already endorses the principle defined in point 112.** Then, a clarification of this article, through a level 2 or 3 regulation, would be welcome. Such clarification should notably specify more details when describing the procedures that asset manager are required to “*establish, implement and apply”.. “with a view to anticipating the effect of concurrent redemptions by several investors, taking into account at least the type of investor, the number of units or shares in the fund owned by a single investor and the evolution of inflows and outflow”*
* Thus, and similarly to the paragraph of MMFR dedicated to “Internal credit quality assessment procedure”, in Article 19, this approach could be adopted when ruling the procedures that an asset manager should follow in the KYC area. One of the main requirement could obviously be the **calibration of a liability-driven liquidity buffer.**
* **The eligible assets of this additional liquidity buffer could also be defined in this level 2 or 3 provision**. We have identified two types of instruments that could be considered as part of this buffer. Firstly, **commercial papers issued by banks and maturing in less than one month** are usually extremely easy to sell, particularly to their issuer. This is due to the fact that the LCR (Liquidity Coverage Ratio) “value” of these instruments drops to zero when reaching the 30-day residual maturity, not to mention that their short maturity increases their intrinsic liquidity. Secondly, **assets referred to in Article 17(7) of MMFR** could also be part of the additional buffer, given the nature of their issuers.

<ESMA\_QUESTION\_MMFR\_5>

1. What are your views on the potential need to eliminate CNAV and LVNAV funds, in light of the recent market developments, and the corresponding potential proposal of amendment of the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_6>

First, we would like to make a short comment on the point 127.iii where it is noted: “*In the EU, VNAV funds do not have thresholds for suspensions (except the 15% weekly liquidity requirement) as LVNAV”.* In our understanding of MMFR, there are not any thresholds for suspensions, but for fees and/or gates in the sole scope of CNAV / LVNAV MMFs. Rules applied to VNAV MMFs do not refer to any specific threshold.

As mentioned in our introductory comments, Amundi has a strong and long-standing footprint in the MMF market, but rather in the space of VNAV-type MMFs. This format allows for these funds to be identified as **usual investment collective schemes**, mostly UCITS, located at the very short end of the risk curve by investors.

As such, VNAV MMFs naturally comply with two key principles that collective schemes, especially UCITS must follow: **mark to market accounting of their assets and fair treatment of their shareholders**.

Before answering the question Q6, we would like to recall some key facts directly or indirectly linked to the matters raised by this question.

* CNAV MMFs (and LVNAV MMFs, created by MMFR) have entered the European market in the late 90’s. They were **imported from the US market**, where this deposit-like format had long prevailed until the reform of the rule 2a7 of the “Investment Company Act” entered into force in 2016. Since then, **only Government-invested or Retail MMFs have been granted the right to keep on operating as CNAV funds**.
* Until the entry into force of MMFR, the French regulation used to allow, under certain conditions, the resort to cost-amortization methodology when valuating money market instruments maturing in **less than three months**. Since then, French-domiciled MMFs have been required **to abandon this approach and applied a mark-to-market valuation to all their market-tradable holdings.**

We believe the most relevant angle one should retain to assess the need to eliminate (or not) CNAV and LVNAV funds is the **investor behavior prospective**, as described in point 76 and, more specifically, in point 128.

Indeed, as long as the portfolio management is concerned, it can be assumed that switching from CNAV / LVNAV to VNAV should not be an issue for most asset-management companies.

The sources of concern that can be raised in regards to a possible ban of CNAV / LVNAV are well known: accountability habits of some investors when managing their cash, risk of brutal shift from CNAV / LVNAV funds to some less-regulated areas of the market. Eventually, this could lead to a less stable funding for the part of the European economy that operates in USD, GBP and, much less importantly, in Euro.

However, we do not foresee any *“cliff-edge* (risk) *from rating downgrades of MMFs”,* as read in point 128.i. To illustrate this, we can recall that a growing number of VNAV funds, mostly denominated in Euro, have been granted a AAA rating by CRAs. This results, for a great part, from the fact that euro short-term rates have been in negative territory for more than 5 years, leading some asset-management companies to convert some of their LVNAV MMFs into the VNAV format.

We then recommend to be very cautious before any decision is made in this respect and believe that an impact assessment, including a survey among CNAV/LVNAV customers, could help to properly inform the decision.

<ESMA\_QUESTION\_MMFR\_6>

1. What are your views on the extent to which Article 35 of the MMF Regulation should be i) clarified ii) amended? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_7>

The point 129 of the consultation document echoes many reviews or studies already published since the March / April 2020 crisis, which, notably, describe the state of play regarding external support of MMFs across the world.

As an example, the “Thematic Review on consistency in implementation of Money Market Funds reforms”[[2]](#footnote-3), published by IOSCO in November 2020, shows the unlevel playing field which prevails in the way external and/or sponsor support is dealt with in key economic areas such as US and EU.

Indeed, while Article 35 of MMFR formally bans any support directly or indirectly provided by an external entity to a money market fund, the US SEC allows it under certain conditions, listed in the rule 2a-7(h)(10).

In addition, the “Request for Comment on Potential Money Market Reform Measures in President’s Working Group Report”, published in January 2021 by the SEC, refers to “two MMF sponsors”, which “intervened to provide support to their funds” (section I), in March 2020. It is also said: “It did not appear that these funds had idiosyncratic holdings or were otherwise distinct from similar funds”.

In our view, the article 35 of MMFR appears to be clear enough, as it does not embed any ambiguity regarding the objective it pursues. In addition, the different events that are considered as an external support are fairly listed and described.

We thus believe that Article 35 should not be clarified nor amended.

<ESMA\_QUESTION\_MMFR\_7>

1. i) Do you agree with the above assessment of the potential need to assess the role of MMF ratings in light of the difficulties faced by MMFs during the March crisis, and the potential need to introduce regulatory requirements for MMF ratings? ii) In your view, based on your experience, what are the benefits of MMF rating from investors’ perspective, having in mind that rules applying to MMFs are already very stringent? What would be the likely consequence on investors from the downgrade of one or several MMFs? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_8>

The rules applied to MMFs are already very stringent and the necessity of requiring an external rating is less acute nowadays than it was a few years ago. However, some clients see the fund rating as a means of gaining an independent third party input in the management of the fund and continue to require it as part of their risk policy. Others prefer the alternative approach of requiring a detailed knowledge of the fund’s portfolio.

We believe that fund’s ratings had little impact on the course of events seen in March/April 2020. The desperate need for liquidity by investors combined with the shrinking liquidity in the secondary market are the main factors explaining the unfortunate sequence experienced during this unprecedented crisis.

With respect to the use of the word “credit ratings” in the MMFR, we believe that this reference is not intended to refer to credit ratings, but must be understood to refer to the idea of “MMF ratings granted by CRAs”.

<ESMA\_QUESTION\_MMFR\_8>

1. Do you agree with the above assessment of the potential need to amend the requirements on stress tests included in the article 28 of the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_9>

We do think that the existing stress tests, included in the article 28 of the MMF Regulation, are already granular enough and cover all investment risks (market, credit, liquidity...). Indeed, the current framework is efficient, as it is also expected to be reviewed by ESMA once a year, in order to adapt the various shocks defined in these scenarios. We can furthermore mention that an updated calibration has been issued in December 2020, taking into account more stringent shocks, but is has not been released yet, needing local translations before becoming officially the new rules. This implementation time should probably be shorten.

In the current configuration, performing stress tests at each MMF level is obviously the best way to detect vulnerabilities, and is the most important level when assessing MMF specificities, more particularly because each MMF has its own liabilities structure. However, it can be useful to perform them at an aggregated level, i.e. overall MMF market, in order to better monitor money market industry behavior. We do believe that this kind of overall approach has to be handled by ESMA, and that is the reason why we are ready to send the quarterly report to ESMA to improve the coordination (and not only NCAs). It is also important to raise that this set of systemic stress tests must be supplemented by additional reliable market data indicators, more particularly by developing a more transparent infrastructure on money market instruments, and detect a lack of functioning of such markets. The sole normative stress tests cannot predict atypical client behaviors (this point being handled by the manager through a strict shareholder monitoring with qualitative assessment), or the total absence of liquidity in the secondary market faced in March 2020.

Apart from these normative ESMA scenarios, we think that the management companies must strengthen this stress tests framework by performing additional granular shocks. The manager has a good knowledge of the potential vulnerability and is in a position to take the appropriate decision. For example, when a MMF is more concentrated or is more likely to have volatility on subscriptions / redemptions, the manager must perform ad-hoc scenarios, and take the relevant measures to reduce risks (in this case increase the liquidity buffers). We think that this framework must be defined by the management company only, and has to be described in a dedicated procedure that may be reviewed by the regulator.

<ESMA\_QUESTION\_MMFR\_9>

1. Do you agree with the above assessment on the potential need to review the reporting requirements under the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_10>

On the reporting requirements, we think that this potential review is primarily geared to regulators, i.e. expecting additional transparency on the MMF. Based on the current situation, we wonder how the reports are analysed, and what can be the outcome of their analysis. Apart of the heavy infrastructure to put in place within the management companies, this report does not impact neither the manager, nor the clients (who have no access to such details).

However, we do understand that further reporting requirement can be useful for the regulator, when market conditions are deteriorating, implying a more frequent monitoring. This is all the more important as MMF profiles can vary quickly during time. In such a situation, the production has to be limited to a restricted list of key indicators, using a simple format to save time and gain reactivity.

In both cases, quarterly reports or additional reporting during stressed market conditions, we think that the requirements (indicators and format) need to remain homogeneous among the NCAs.

<ESMA\_QUESTION\_MMFR\_10>

1. Do you agree with the above assessment of the potential need to include additional requirements in the MMF Regulation, and/or potentially in other types of EU piece of legislation on the disclosure of money market instruments (MMIs) and main categories of investors to regulatory authorities (e.g. detailed information on liabilities)? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_11>

We think that, under Article 37 of the MMFR relative to disclosure requirements, the information transmitted on a quarterly basis to Authorities already provide a clear overview of both MMF’s asset and liability breakdowns under normal market conditions. In times of market stress, we would welcome the provision of this type of information on a more frequent basis to better identify the emergence of market imbalances.

However, as mentioned in our response to Q5, we believe that an enrichment or clarification of Article 27 (on KYC) would more efficiently address the necessity for asset managers to monitor on an ongoing basis the liability structure of MMFs and to define specific procedures to integrate this information to adapt the portfolio’s liquidity accordingly.

Regarding other types of EU piece of legislation on the disclosure of money market instruments, we see the necessity of creating a European regulated market for short term papers. It is essential to define a standardized instrument in terms of characteristics and documentation that transcends all European jurisdictions, and provide an overview of this instrument by consolidating pre- and post-trade data in a publicly accessible repository.

<ESMA\_QUESTION\_MMFR\_11>

1. i) Do you agree with the above assessment on the potential creation of a LEF? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80. ii) Several open questions related to the creation of the LEF, on which ESMA would specifically welcome feedback from stakeholders, include:
2. **What should be the appropriate size of such a pooling vehicle as the LEF?**
3. **In terms of funding, how much MMF would have to pay each year to participate in the pool? How much of the funding would/should be provided by other sources?**
4. **How long would it take to establish such a LEF?**
5. **Under which conditions would the LEF be activated?**
6. **Who would be responsible for activating the LEF**.

<ESMA\_QUESTION\_MMFR\_12>

We have many doubts about the feasibility and acceptability of such a mechanism, as its calibration, complexity of implementation and governance raise many questions and uncertainties. In order to cope with the scale of redemptions observed during the March/April market dislocation, a capital intensive mechanism would have to be put in place while remaining potentially inactive for a very long period. The creation of a LEF could jeopardize the viability of the MMF industry, take a long time to fund and be ineffective in repeated crises. It would have to meet its own capital and liquidity requirements and could be seen as the only recourse for MMF to obtain direct access to central bank money in the event of a severe crisis.

<ESMA\_QUESTION\_MMFR\_12>

1. Do you agree with the above assessment on the potential need of further clarification of the requirements of articles 1 and 6 of the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.

<ESMA\_QUESTION\_MMFR\_13>

We see no need for further clarification, as we consider the scope of MMFR to be unambiguous as set forth in the requirements of Article 1 and 6.

<ESMA\_QUESTION\_MMFR\_13>

1. * Source: ESMA Report on Trends, Risks and Vulnerabilities, n°1, 2021, RA.4 (p62), on MMF size: LVNAV (591 EUR bn), VNAV (581 EUR bn) and CNAV (76 EUR bn)

   [↑](#footnote-ref-2)
2. See Table 8 (p34) and Annex C (p44) [↑](#footnote-ref-3)