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| 29 March 2021 |

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

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| --- | --- |
| Name of the company / organisation | Invesco |
| Activity | UCITS Management Company / AIFM |
| Are you representing an association? |[ ]
| Country/Region | International |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFR\_1>

Invesco Ltd. (“Invesco”) is an independent and diversified investment management firm managing USD 1.50tn in assets on behalf of clients worldwide as at 31 May 20211. We have specialised investment teams managing investments across a comprehensive range of asset classes, investment styles and geographies and our 8,000+ employees globally allow us to focus on client needs locally, with an on-the-ground presence in 25 countries, including a significant presence in the European Union (EU).

Invesco manages money market funds (MMFs) and liquidity portfolios on behalf of clients across the globe. In the EU, we manage three Ireland-domiciled MMFs, including EUR, GBP and USD portfolios, with total assets under management (AuM) of USD 9.82bn at 29 June 20212. Our client base for these funds spans Europe (including the UK) and Singapore.

1 Source: Invesco

2 Source: Invesco

<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>

1. 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?

It is important to note that, while it is the case that MMFs, like other market participants and investors, faced difficulties as a result of the Covid-19-related March/April 2020 liquidity event, it is also true that, despite underlying market liquidity issues, MMFs met investor needs throughout the period. No MMF had to suspend dealings, use redemption gates, apply liquidity fees or utilise any other liquidity management tools affecting investors’ ability to redeem. Moreover, we note that no CNAV or LVNAV MMF breached their 20bps collar.

Liquidity of underlying markets

We welcome ESMA’s acknowledgement that MMFs, like other market participants and investors, faced difficulties in accessing liquidity in the underlying short-term money market during the March/April 2020. We also welcome ESMA’s assessment that, per paragraphs 34 and 37 of the consultation, these underlying market liquidity issues were, in part, linked to the “reluctance or inability by certain banks to act as dealer” during the period and that “it would be worth exploring options to improve the functioning of the secondary market and increase the attractiveness of money market instruments in order to incentivize dealers to provide liquidity”. It is certainly important to note that the Covid-19-related March/April 2020 liquidity event was a market-wide event and not specific to or because of MMFs.

Regarding the interventions of central banks, it is the case that such interventions assisted markets as a whole and that EU MMFs did not receive direct assistance. Indeed, the European Central Bank’s Pandemic Emergency Purchase Programme (PEPP) explicitly omitted financial commercial paper (CP) – an important asset class for e.g., LVNAV MMFs – from the scope of its purchases. However, central bank interventions did calm the short-term money markets more broadly and thus assisted, indirectly, our MMFs in managing liquidity during the period in which the central bank initiatives operated. This point is made clear in the November 2020 IOSCO Thematic Note on MMFs, which stated that “it seems reasonable to assume that these interventions were initiated to provide support to short-term money markets generally and not just the MMF portion of that market”.

Finally, in paragraph 40 of the consultation, ESMA states that, when facing liquidity challenges, LVNAV MMFs can choose to “dispose of less liquid assets”, referring in this instance to securities that do not qualify as part of LVNAV MMFs’ 30% weekly maturing assets buffer. We would simply note that MMFs only invest in high quality liquid assets, as prescribed in the EU MMFR. It is important to make the distinction that many MMFs sold longer-dated high quality liquid assets in order to preserve the required 30% weekly maturing assets buffer. That certain holdings within a MMF do not qualify as weekly maturity assets does not necessarily mean that they are inherently ‘less liquid’ than those assets which do form part of the 30% buffer. Additionally, we would not agree that, per paragraph 24 of the consultation, under normal market conditions there is “low liquidity” in the CP secondary market, as our experience in the market suggests the contrary is true; that there is sufficient liquidity in the CP secondary market under normal market conditions.

Regulatory requirements

As stated above, despite the Covid-19-related March/April 2020 liquidity event, MMFs met investor needs throughout the period. A significant contributing factor to the general resilience of MMFs is undoubtedly the reforms that have been put in place in recent years. While there is a need to enhance the effectiveness of the framework governing the operation of MMFs in certain areas, it is clear from an AuM perspective (the size of the MMF sector has grown significantly in recent years) that investors are reassured by the general strength and transparency of the regulatory and supervisory framework applicable to MMFs in the EU.

As outlined by ESMA in paragraphs 46-47 of the consultation, and in our response to Q3(i), one area of the EU MMFR that requires to be reconsidered is the regulatory tie between the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates. We provide our comments in this regard in response to Q3(i).

1. 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?

Role of CRAs

MMF ratings are an important tool for investors. They provide assurance that a skilled independent party is reviewing the MMF. In particular, the rating agencies review certain criteria which are not addressed in the EU MMFR (and with respect to which MMFs are not directly subject under the provisions of the EU MMFR), including due diligence of the MMF provider’s organisation, investment and asset class experience, reporting and oversight, compliance, systems and controls, and fund board/governance structures. Indeed, some investors are bound to invest in AAA-rated MMFs and so MMF ratings are also important from an MMF provider perspective.

However, during the Covid-19-related March/April 2020 liquidity event, Invesco’s immediate focus in respect of our MMFs was to ensure the continued servicing of clients and to manage and access liquidity in our funds and the underlying market as necessary. The implications of managing MMFs during this period on MMF ratings were secondary to our immediate obligations in managing our MMFs as, in our experience and despite their importance to investors, investor behaviour during that period was being driven by factors other than MMF ratings (e.g., the need to bolster their liquidity positions).

As such, we are not of the opinion that there is a strong need to assess the role of MMF ratings in light of the Covid-19-related March/April 2020 liquidity event. However, we agree with ESMA, per paragraph 149 of the consultation, that there may be merit in clarifying the title of Article 26 of the EU MMFR.

<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>

1. Do you agree with the above assessment on the potential MMF reforms related to the review of the MMF Regulation?

We welcome ESMA’s consultation on the forthcoming European Commission-led review of the EU MMFR, and appreciate the opportunity to provide comment on the various reform options discussed in the consultation.

Of course, while we acknowledge the need to focus on specific provisions in the EU MMFR as part of the review, we welcome ESMA’s consideration of “broader impacts on the stability and functioning of short-term funding markets”. This consideration should be included as part of policymakers’ broader work on the market-wide issues experienced during the Covid-19-related March/April 2020 liquidity event. It is important to restate this as, while policymakers may focus attention on the specific provisions of the EU MMFR as part of the review, they should not lose sight of the fact that market-wide issues require market-wide solutions. The review of the EU MMFR should not, therefore, be viewed in silo or as an answer to all of the issues faced in the market last year.

1. 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?

We agree with ESMA that it is vitally important to consider the potential impact of each reform option on investor behaviour, in particular given the assessment that certain regulatory provisions (e.g., the regulatory tie between the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates) may have influenced investor behaviour during the Covid-19-related March/April 2020 liquidity event.

Given the important role that MMFs play in providing an effective liquidity management vehicle for investors, and in providing short-term funding to the wider economy, policymakers must also consider the potential impact of ineffective reforms and how, as a result, investors might instead seek to rely on other (potentially less transparent) products offered by banks or non-bank financial institutions for their liquidity management needs. Not only could such a situation transfer potential issues/risks elsewhere in the market without mitigating them effectively, but it could have a significant impact on the short-term funding of the wider economy.

<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>

1. potential need to decouple regulatory thresholds from suspensions/gates and the corresponding proposals of amendment of the MMF Regulation

Yes, we strongly support the proposal to decouple the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates. As set out in our responses to Q1 and Q2, we agree with ESMA that the regulatory link between these provisions created a perceived ‘first-mover advantage’ for investors in CNAV and LVNAV MMFs and incentivised pre-emptive investor redemptions as MMFs’ weekly maturing assets moved towards the 30% threshold. Indeed, as a result, it is the case that the regulatory link between weekly maturing assets and net daily redemption thresholds and provisions relating to the potential application of liquidity fees or redemption gates made it effectively impossible for MMFs to draw down on the so-called 30% liquidity buffer.

Therefore, decoupling the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates should help to alter MMF investors’ perceptions of how CNAV and LVNAV funds operate and manage liquidity, remove perceived first-mover advantage and remove the incentive to pre-emptively redeem as MMFs’ volumes of weekly maturing assets moved towards the 30% threshold. Overall, this should contribute towards alleviating redemption pressures on CNAV and LVNAV MMFs, in particular during periods of macroeconomic and underlying financial market stress, and would allow managers of such funds to draw down on liquidity buffers should they require.

1. potential reforms of the conditions for the use of redemption gates?

In our view, considerations around the potential application of redemption gates should remain a matter for the fund board and should only be used as a last resort to protect investors where all other liquidity management tools have failed to be effective.

Requiring MMFs to obtain permission from or to notify in advance the local competent authority when gating a fund is not advisable as, at the very least, it infers an additional layer of governance around the potential gating of a fund which, depending on complexity, could be to the detriment of investors in time-critical situations. Additionally, granting the local competent authority a pivotal role in the governance of gating an MMF could prove problematic from a liability perspective were investors to pursue litigation around such an action. We therefore question whether the local competent authority would want to be so closely involved in the governance of MMFs regarding gating.

From an Invesco perspective, decoupling the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates, per our response to Q3(i), should be sufficiently effective in helping to alter investor behaviour and alleviating redemption pressures on CNAV and LVNAV MMFs, in particular during periods of macroeconomic and underlying financial market stress, and would allow managers of such funds to draw down on liquidity buffers should they require. We do not see an additional need to reform the conditions for the use of redemption gates.

<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>

1. 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 draw-backs)?

It should first be noted that MMFs already have to option to apply liquidity fees that adequately reflect the cost to MMFs of accessing liquidity to facilitate redemptions so as to ensure that shareholders who remain in the relevant fund are not unfairly disadvantaged when other shareholders redeem. As such, we do not see the need to legislate for additional anti-dilution levies (ADLs) which seek the same outcome, i.e. to externalise the cost of liquidity to redemptions (or subscriptions where relevant) and to protect remaining (or existing) investors.

Regarding swing pricing, while we acknowledge that it is a widely used pricing adjustment mechanism employed by managers of other types of daily dealing open-ended investment funds, we do not believe that requiring MMFs to use swing pricing is a solution to the market-wide issues experienced during the Covid-19-related March/April 2020 liquidity event.

First, while we acknowledge the points raised by ESMA in paragraph 100 of the consultation, we note, per above, that MMFs already have to option to apply ADLs, in the form of liquidity fees, to redemptions that (1) reflect the cost of liquidity, (2) potentially reduce first-mover advantage, and (3) act as a price adjustment mechanism that can be applied in preference to the application of gates.

Second, from an Invesco perspective, requiring MMFs to use swing pricing would be operationally challenging, if not impossible, due to the practical difficulty in reconciling our same day settlement mechanism, a characteristic of MMFs which our clients value highly, with the operation of our stringent governance framework that we have in place to regulate the use of swing pricing for other fund ranges which settle over a longer period. If MMFs were required to use swing pricing, it is unlikely that they would be able to offer same day settlement to all investors and this would undermine one of the fundamental characteristics of the MMF investment proposition. Indeed, regarding CNAV/LVNAV MMFs in particular, we agree with ESMA that for “MMFs using amortised cost valuation, systematic swing pricing would not be appropriate”.

Third, requiring MMFs to use swing pricing simply does not address the fundamental underlying market structure issues that market participants experienced during the Covid-19-related March/April 2020 liquidity event. For example, in paragraph 34 of the consultation, ESMA states that the “COVID-19 crisis has also revealed reluctance or inability by certain banks to act as dealer in [stressed market] circumstances, which may have, in turn, amplified the stress on the market”. Requiring MMFs to use swing pricing would not, in our view, have a direct impact on the way in which underlying markets operate and would not increase the “limited capacity of banks to acts as dealers” nor “incentivize dealers to provide liquidity” as ESMA states – and we agree – is necessary, per paragraph 37 of the consultation.

1. 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?

As noted in response to Q4(i), MMFs already have to option to apply liquidity fees that adequately reflect the cost to MMFs of accessing liquidity to facilitate redemptions so as to ensure that shareholders who remain in the relevant fund are not unfairly disadvantaged when other shareholders redeem. As such, we do not see the need to legislate for additional ADLs which seek the same outcome, i.e. to externalise the cost of liquidity to redemptions (or subscriptions where relevant) and to protect remaining (or existing) investors.

Regarding CNAV/LVNAV MMFs in particular, we believe that decoupling the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates (though these should only be used as a last resort to protect investors where all other liquidity management tools have failed to be effective), allowing for an operable liquidity buffer and a more flexible approach to the application of liquidity fees, would be the most appropriate way to move forward regarding reforms targeting the liability side of such MMFs.

<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>

1. 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?

We agree with ESMA, as stated in paragraph 109 of the consultation, that the EU MMFR provisions relating to liquidity buffers can operate pro-cyclically in practice, in particular during periods of macroeconomic and underlying financial market stress. We also agree that liquidity buffers should be made more “usable/countercyclical”. As set out in our responses to Q3 and Q4 in respect of CNAV and LVNAV MMFs, decoupling the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates would achieve this objective by making the liquidity buffer operable in practice, thus allowing managers of such funds to draw down on liquidity buffers should they require.

We do not believe the proposals set out by ESMA in paragraphs 110-117 of the consultation are appropriate for the following reasons:

* Option 1:
	+ ESMA suggests that “the current minimum daily and/or weekly WLA requirements could automatically decline in certain circumstances, such as when net redemptions are large or when the regulatory authority provides temporary relief from WLA requirements” and that “any thresholds linked to a fund’s minimum WLA requirements (e.g., fee or gate thresholds) would also move with the minimum”.
	+ It is possible that, during periods of macroeconomic and underlying financial market stress, this approach could amplify the volume of redemptions as investors would be aware that regulatory thresholds (inc. those relating to the potential application of liquidity fees or redemption gates) are decreasing, but that ultimately there would be a liquidity floor where such fees or gates may be triggered. Arguably, this proposal extends the perceived ‘first-mover advantage’ of redeeming investors, rather than mitigates it, and would continue to incentivise pre-emptive redemptions as MMFs’ volumes of weekly maturing assets move towards the relevant thresholds by retaining the link between the weekly maturing assets and net daily redemption thresholds from provisions relating to the potential application of liquidity fees or redemption gates.
	+ Also, regarding the suggested role of the regulator, there is a lack of clarity regarding which authority this would be (e.g., ESMA, the management company’s regulator or the investment manager’s regulator) and how level playing field concerns might be managed if coordinated at local competent authority level.
* Option 2:
	+ ESMA suggests that “the WLA could be defined as the greater of the current WLA and a buffer calibrated by the regulator based on stress tests performed by MMF managers in accordance with shocks defined by the regulators” and that “this buffer could either be relaxed, at the initiative of a supervisor in times of stress or by the managers in the interest of investors and for financial stability purposes (assessment of the supervisor/ EU macro-prudential authority)”.
	+ First, it should be noted that, as part of our prudent approach to the management of our MMFs, we generally hold additional liquidity in our funds above the mandated WLA thresholds.
	+ Second, as also mandated by the EU MMFR, our MMFs are transparent investment vehicles. This transparency, while it may to some extent contribute towards investor behaviour as discussed in other parts of the consultation (i.e., pre-emptive redemptions as MMFs’ volumes of weekly maturing assets move towards the relevant threshold), is highly valued by our clients and investors in our MMFs. The proposal by ESMA to apply an additional, non-public buffer on top of the existing liquidity buffer would not only be a step backwards in transparency terms, but it would also act to further constrain MMFs by effectively increasing, in practice, the overall liquidity buffer. Ultimately, the regulatory cliff edge would remain.
	+ Finally, ESMA suggests that these liquidity buffers, both public and non-public, should operate alongside mandatory swing pricing. We have set out in our response to Q4(i) the various reasons why we believe requiring MMFs to use swing pricing is not an appropriate solution to the fundamental underlying market structure issues that market participants experienced during the Covid-19-related March/April 2020 liquidity event.
* Option 3:
	+ ESMA suggests that “funds with a larger share of volatile institutional investors could be required to hold larger buffers. To this end, the proposal to disclose MMF investor types to regulatory authorities should be seen a necessary prerequisite”.
	+ One of the fundamental flaws of this proposal is the definition, or lack thereof, regarding “volatile institutional investors”. Institutional investors in MMFs have differing liquidity needs/profiles which evolve over time (e.g., over the course of a financial year, economic cycle etc.). Seeking to determine ex-ante where investors might sit on a spectrum of presupposed volatility simply does not match up to the reality of investors’ dynamic liquidity needs. Hence, as asset managers, and as part of both our fiduciary and regulatory duties, we engage with our MMF investors on an ongoing basis to understand their investment objectives and liquidity needs in order that we can best position our MMFs.
1. 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.

Per our response to Q5(i), we do not believe that Option 1 is a viable reform option. As such, we do not offer a response to the question regarding the relevant threshold (on the size of redemptions) from which WLA would need to be automatically adjusted.

<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>

We do not see a need to eliminate CNAV and/or LVNAV MMFs as proposed by ESMA in the consultation for the following reasons.

First, it is not clear to us as a provider of LVNAV (and VNAV in UK) MMFs that LVNAV MMFs were the root cause of the fundamental underlying market structure issues that market participants experienced during the Covid-19-related March/April 2020 liquidity event, and that eliminating these types of MMF structure would resolve the liquidity issues faced by market participants and investors alike. Indeed, in our experience and despite underlying market liquidity issues, LVNAV MMFs proved to be resilient and met redemptions across the board.

Second, VNAV MMFs also faced significant redemption pressures, and met their obligations in respect thereof, and likewise came up against the same underlying market liquidity issues as CNAV/LVNAV MMFs, as investors in VNAV MMFs also sought to bolster their cash positions. It is also the case that perceived first-mover advantage among the VNAV investor base played a role in amplifying redemption pressures as the price at which VNAV investors could redeem decreased. It is clear, therefore, that in a liquidity event such as that which was experienced in March/April 2020, investor behaviour was not structure specific.

It is worth noting that, notwithstanding the availability of VNAV MMFs in the EU, investors have chosen to invest over half of EU MMF assets in CNAV/LVNAV MMFs. Investors clearly see value in the CNAV/LVNAV MMF investment proposition. If CNAV and/or LVNAV structures were to be eliminated, this should only occur where it has been clearly proven that the risk of those structures outweighs the benefits that they bring to investors. This is not the case – conclusions drawn from the Covid-19-related March/April 2020 liquidity event simply do not provide evidence that the elimination of CNAV and/or LVNAV funds is necessary or warranted.

<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>

Invesco supports the prohibition of external support to MMFs and encourages ESMA, when it provides advice to the European Commission on the forthcoming review of the EU MMFR, to retain the prohibition. We are generally content with the current wording of Article 35 of the EU MMFR as we believe it is sufficiently clear. However, we could support any necessary clarifications, per paragraph 140 of the consultation, further defining the “general circumstances under which external support is to be banned and under which circumstances related party transactions would be permissible”.

We strongly reject any proposal to “soften or amend the express ban of external support in… times of stress”. We believe that such an approach would send the wrong signal to investors in MMFs (e.g., it could represent some kind of guarantee on investment) and, from a provider perspective, would create an uneven playing field between MMFs providers that form part of or are sponsored by banking/intermediary groups and other MMF providers.

<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>

1. 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?

We are not of the opinion that there is a strong need to assess the role of MMF ratings in light of the Covid-19-related March/April 2020 liquidity event. However, we agree with ESMA, per paragraph 149 of the consultation, that there may be merit in clarifying the title of Article 26 of the EU MMFR.

1. 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?

MMF ratings are an important tool for investors. They provide assurance that a skilled independent party is reviewing the MMF. In particular, the rating agencies review certain criteria which are not addressed in the EU MMFR (and with respect to which MMFs are not directly subject under the provisions of the EU MMFR), including due diligence of the MMF provider’s organisation, investment and asset class experience, reporting and oversight, compliance, systems and controls, and fund board/governance structures. Indeed, some investors are bound to invest in AAA-rated MMFs and so MMF ratings are also important from an MMF provider perspective.

However, during the Covid-19-related March/April 2020 liquidity event, Invesco’s immediate focus in respect of our MMFs was to ensure the continued servicing of clients and to manage and access liquidity in our funds and the underlying market as necessary. The implications of managing MMFs during this period on MMF ratings were secondary to our immediate obligations in managing our MMFs as, in our experience and despite their importance to investors, investor behaviour during that period was being driven by factors other than MMF ratings (e.g., the need to bolster their liquidity positions).

It is difficult to provide an ex-ante opinion on the “likely consequence on investors from the downgrade of one or several MMFs” as that would be dependent on a number of variables. For example, it is clear that a downgrade of an MMF with an AAA MMF rating would be problematic for investors whose mandates only allow them to invest in such MMFs; they would be required to seek alternative arrangements. However, what is not clear is where such investors would put their money if a number of such MMFs were downgraded in parallel (i.e., such an eventuality could suggest a market-wide event has occurred, hence it is difficult to provide an ex-ante opinion).

<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 not necessarily agree with the assessment that rules relating to stress tests require to be amended as, per ESMA’s statement in paragraph 157 of the consultation, “given this regulatory framework as set out in the Article 28 of the MMF Regulation is recent and has not been tested yet, [and] given ESMA has not received yet any report as per Article 28(6), it is still to be assessed whether the current framework would not be sufficient to meet [its] objectives”. However, given that during the Covid-19-related March/April 2020 liquidity event we witnessed weaknesses in the EU’s regulatory and supervisory cooperation framework, in particular regarding information sharing and coordination between ESMA and local competent authorities, we would be happy to consider more detailed proposals to strengthen ESMA’s coordination role per paragraph 158(i) of the consultation.

Regarding the proposal put forward in paragraph 158(ii) of the consultation, we are not of the opinion that “specifying further the corrective measures that managers of MMFs need to take when stress tests reveal vulnerabilities of a specific MMF… or the process of adoption of such measures and the role of supervisors in that process” is required. Ultimately, such actions could really only take the form of portfolio repositioning (i.e., the sale of longer-dated, lower credit quality assets to be replaced by more liquid, higher credit quality assets) but this would require a well-functioning short-term market which was absent in March/April 2020.

There is also a risk in further specifying actions to be taken by MMFs where stress tests identify vulnerabilities that managers would take the same actions at the same time, or would be requested by ESMA to do so, thus creating a herd effect and possibly amplifying issues in the underlying market such as those which were experienced in March/April 2020.

Finally, it should be noted that existing stress test rules require consideration of reference parameters that include factors such as (a) hypothetical changes in the level of liquidity of the assets held in the portfolio of the MMF and (b) hypothetical macro systemic shocks affecting the economy as a whole. Therefore, as currently designed, stress test rules require MMFs to consider factors which may impact other MMFs in parallel, as well as markets as a whole.

<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>

In our view, our EU MMFs already provide detailed reporting to the local competent authority, including on a daily basis. Indeed, during and after the Covid-19-related March/April 2020 liquidity event, we provided the Central Bank of Ireland (CBI) with more detailed reporting including the daily submission of a LVNAV MMF Daily Shadow NAV Deviation Report, as well as daily data on WAM, WAL, yield, AuM, net flows etc. As such, we do not believe any additional reporting, either under normal market conditions or during periods of underlying market stress (in addition to the ad hoc reporting requested by the CBI in March/April 2020), is necessary.

However, per our response to Q9, given ESMA feels insufficiently sighted on the reporting of such data, it is clear that there is a structural weakness in the EU’s regulatory and supervisory cooperation framework, in particular regarding information sharing and coordination between ESMA and local competent authorities. As such, we would be happy to consider more detailed proposals to strengthen ESMA’s coordination with local competent authorities.

<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>

As stated by ESMA in the consultation, MMFs are already required to disclose certain information on liabilities and assets, while, as noted in our response to Q10, MMFs are also already very transparent products. We are supportive of these reporting and transparency requirements. MMFs also disclose the categories of investor invested in the funds.

However, as set out in our response to Q5, institutional investors in MMFs have differing liquidity needs/profiles which evolve over time (e.g., over the course of a financial year, economic cycle etc.). Seeking to determine ex-ante where investors might sit on a spectrum of presupposed volatility simply does not match up to the reality of investors’ dynamic liquidity needs. As such, while we understand what ESMA is seeking to achieve in proposing to introduce additional requirements regarding the disclosure of investor types in terms of improving understanding of where risk may sit in the system, the reality is that it would be challenging and potentially misleading to draw conclusions on redemption risk and anticipated investor behaviour during times of unprecedented stress based solely on the investor category.

We are generally more supportive of ESMA’s proposal to improve transparency around the issuance and characteristics of short-term money market instruments as we believe this could be beneficial from a supervisory perspective. As such, we would be happy to consider more detailed proposals in this regard.

<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>

As we have alluded to in response to various questions posed in the consultation, the issues experienced in financial markets during the March/April 2020 period were multifaceted and not specific to any one segment of the financial sector – the Covid-19-related liquidity event was a market-wide event. It is important to restate this as, while the policy intention behind the proposal to establish a LEF is to benefit MMFs in times of difficulty, market-wide issues require market-wide solutions, and it should not be the role or duty of MMFs to fund a facility which, ultimately, seeks to alleviate broader issues associated with the operation of short-term markets.

Given this context, and notwithstanding any potential issues relating to the interpretation of Article 35 of the EU MMFR regarding external support, we do not believe that establishing an LEF funded on an ongoing basis by MMFs, asset managers and third-parties is an appropriate response to the Covid-19-related market liquidity event of March/April 2020.

First, there are significant challenges in assessing the appropriate size of the LEF given that it is not possible to accurately predict future stress events or market crises, and therefore the liquidity challenges that may be faced by MMFs as they participate in short-term money markets. Based on our experience in seeking to access liquidity during the Covid-19-related March/April 2020 liquidity event, and relating that experience to the whole of the EU MMF sector (which, per paragraph 13 of the consultation, represented EUR 1.45tn at end 2020), an LEF would have to be significant enough in scale to mitigate against severe or extreme deterioration in the liquidity of a not insignificant portion of this AuM.

Second, questions (and uncertainty) around the size of an LEF give rise to additional issues (and uncertainties) regarding the funding of such a facility. In an already challenging and protracted low interest rate environment, requiring MMFs to provide significant funding for the establishment of an LEF would undoubtedly call into question the viability of providing such investment products. ESMA notes in paragraph 11 of the consultation that “MMFs are key intermediaries in the financial system [that] provide economic functions to the financial system and real economy”. It is possible that some MMF providers would be forced to exit the market as the viability of such products would be undermined.

Third, an LEF would have to be established on a global basis so as to accommodate all relevant MMFs, money market instruments and currencies. At the very least, this poses significant questions around the governance and operation of such a facility, and how MMFs of different structures and jurisdictions would be able to contribute to and participate in such a facility. It would also likely result in a lengthy establishment process.

Finally, it is possible that investors could see MMFs’ membership of an LEF – wrongly – as a liquidity guarantee, rather than a liquidity facility/mechanism as described in the consultation. This could impact how investors perceive and invest in MMFs. For example, it is conceivable that, were it not of sufficient scale, an LEF could be overwhelmed/run dry, which could exacerbate rather than mitigate redemption pressures during periods of economic stress as investors, who wrongly perceived their investment in a MMF to be guaranteed, seek to access their cash.

<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 do not believe there is a need to clarify the scope of the EU MMFR as considered in paragraphs 182-187 of the consultation.

<ESMA\_QUESTION\_MMFR\_13>