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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:

respond to the question stated and indicate the specific question to which they relate;

contain a clear rationale; and

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:

Insert your responses to the consultation questions in this form.

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.

If you do not wish to respond to a given question, please do not delete it but simply leave the text “TYPE YOUR TEXT HERE” between the tags.

When you have drafted your response, name your response form according to the following convention: ESMA\_MMFR\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_MMFR\_ABCD\_RESPONSEFORM.

Upload the form containing your responses, in Word format, to ESMA’s website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input – Open consultations’ → ‘Consultation on 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 | Irish Funds Industry Association |
| Activity | Asset Manager Association |
| Are you representing an association? |  |
| Country/Region | Ireland |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFR\_1>

*Introduction*

The Irish Funds Industry Association (“**Irish Funds**”) is the representative body for the international investment fund community in Ireland. Irish Funds represents fund managers, administrators, depositaries, transfer agents, professional advisory firms and other specialist firms involved in the international fund services industry in Ireland. Ireland is the largest European fund domicile for money market funds (“**MMFs**”), with net assets in Irish domiciled MMFs amounting to EUR 571 billion or approximately 41% of total European domiciled MMF assets (source: Central Bank of Ireland, April 2021 and EFAMA, Q4 2020). All MMF product types (LVNAV, PDCNAV and VNAV (short-term and standard) MMFs) are established in Ireland. The most predominant product type by assets is LVNAV (approximately 78% of total net assets), followed by PDCNAV (approximately 17%) and VNAV (approximately 5%) (source: Central Bank of Ireland, 2020). Given the prevalence of MMFs in Ireland, this consultation is particularly important for Irish Funds and we welcome the opportunity to comment.

*Key observations*

This review of the MMF Regulation is prompted not by the COVID-19 March crisis but is a scheduled review in accordance with the provisions of that Regulation. As such, it is worth taking a broader view and giving greater recognition to the fact that MMFs have proven to be resilient during the COVID-19 March crisis. As recognised in paragraph 20 of the Consultation, no EU or US MMFs had to implement liquidity fees on redemptions or redemption gates or suspend redemptions. Further, IOSCO’s Thematic Note Money Market Funds during the March-April in November 2020 stated that “*deviations between stable and floating net asset values of $LVNAV widened, but the 20bps threshold was not breached*.”

Some of the key objectives of MMF Regulation were to strengthen the resilience of MMFs and to address potential systemic risks in light of the 2008 financial crisis. There was a particular focus to ensure that the failure of a MMF would not cause contagion. The COVID-19 March crisis has been a real life proving ground for the EU money market fund reforms in this regard. Given that MMFs have proven sufficiently resilient to withstand this challenge, this perhaps proves that the MMF Regulation is fit for purpose and does not require significant amendment.

That said, there are enhancements that can be made. We support the Consultation’s proposal regarding the de-coupling of fees/gates/suspensions from liquidity thresholds. In addition, we propose that (1) the MMF Regulation be amended to include a general power for regulators to request more frequent reporting in stressed market conditions (question 10 below) and (2) the publication frequency of the daily and weekly liquid asset levels should be increased to daily.

<ESMA\_COMMENT\_MMFR\_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>

*No MMF suspended or imposed fees / gates*

While the March 2020 COVID-19 crisis presented a challenging environment, we note that in the face of such challenges, no money market fund 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 LVNAV MMF breached the 20 basis points collar.

*Central bank assistance*

In relation to central bank assistance, we note (and as outlined in the Consultation Paper) that such interventions assisted markets as a whole but MMFs in Europe did not receive (or ultimately require) any direct assistance. Interventions in the short-term market by central banks undoubtedly assisted MMFs in managing liquidity constraints and with ensuring that redemptions were honoured. However, it is important to emphasise that these market interventions were not limited to MMFs and were made to assist the market generally. The IOSCO Thematic Note states 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*” and, in the US where the Federal Reserve did in fact introduce measures specifically to assist MMFs, it is worth noting that this was just one of a package of measures to support the market generally – in fact, the Federal Reserve established 11 new facilities to support the flow of credit to households and businesses.

As such, it is not reasonable to rely on the conclusion that MMFs would have failed absent such indirect support when in fact the markets as a whole would not have functioned without such support. Following the March 2020 COVID-19 crisis, the conclusion should be that the short term markets require attention rather than a particular type of participant in them.

In that context, we believe that MMFs (and the existing regulatory regime) largely proved to be resilient and effective during the March 2020 COVID-19 crisis. While such resiliency and effectiveness could be improved, it is indeed only an improvement that is required, not a significant overhaul or reform (as would be represented by some of the proposals in the Consultation).

*Nuanced review of data*

In addition, it is our view that the experience of the MMF sector was not homogenous during the crisis and there were notable differences depending on the type of MMF and currency in which the MMFs are denominated; as such, the assessment of the difficulties faced by MMFs is far more nuanced than the conclusions drawn in the Consultation Paper. In particular, the Consultation draws broad conclusions regarding the issues experienced by LVNAV MMFs in terms of outflows and possible consequences of limits around redemption fees and gates but it does not provide similar detailed analysis of the experience of VNAVs during the COVID-19 March crisis. Such analysis is important as if LVNAV and VNAV MMFs experienced divergent issues, this could point to such issues being MMF structure specific. However, if both LVNAV and VNAV MMFs experience similar issues, this could point to issues being a function of difficulties with liquidity in short-term markets generally rather than being MMF structure specific. For example, VNAV MMFs denominated in Euro experienced difficulties on par with LVNAV funds and in some cases in excess of the difficulties faced by LVNAV funds denominated in Sterling. This strongly indicates that the underlying issues were in the Euro short term market rather than the particular MMF category of the fund.

We agree with the identification of the lack of liquidity in short term markets as a primary vulnerability. As noted in our other responses, we agree that some regulatory constraints constituted vulnerabilities too (e.g., the link between liquidity thresholds and fees/gates) but disagree that the impact of credit rating agencies was an issue.

*MMF ratings*

It is our experience that ratings are generally viewed as very positive by investors as they give some assurance that a skilled independent party is reviewing the MMF. We would note also that some investors are bound to invest in AAA MMFs and so they serve an important purpose in this respect.

It is our opinion and that of our members that manager behaviour during the March crisis was largely driven by a need to respond to investor requirements for liquidity and that ratings did not have any significant bearing on such behaviour. There were multiple competing demands for cash bearing down on investors during the period (e.g., margin calls, other funding sources drying up and operational needs due to the economic shut down) which ultimately resulted in significant redemptions from MMFs. Meeting these redemptions was the primary driver for manager behaviour.

*Drivers of investor behaviour*

The Consultation notes, on paragraph 20, that “*LVNAVs recorded high outflows, while CNAVs saw inflows of similar magnitude, reflecting a potential substitution effect (or flight-to-quality)*”. A more in-depth analysis is warranted here and IOSCO’s Thematic Note may be a useful starting point in that regard:

“Corporates use MMFs to invest their excess cash until a major expenditure, such as payroll, is due. Financial institutions use MMFs to manage their own liquidity demands (margin call, redemption or contract termination, daily cash sweep vehicle). In addition, some investors use MMFs to hold cash collateral against swaps or other derivative trades. Market volatility during the market turmoil would have affected the mark-to-market valuation of swaps and other derivative positions, resulting in investors needing to increase collateral positions, fuelling outflows. **Outflows therefore may reflect the immediate liquidity needs of MMF investors.**”

The difficulty with a less complex analysis of the reasons for outflows from MMFs is that it tends to point to flight to quality as the cause and could imply that increasing quality in LVNAV and VNAV MMFs is the solution. However, as can be seen from IOSCO’s analysis, redemptions were driven by various factors including the need for some investors to have increased cash to hand. In light of that analysis, directing regulatory attention to increasing quality may not necessarily be an effective response.

It is important that the Consultation recalls the objectives of the MMF Regulation; mitigating contagion risk and run risk were identified by the Commission as centrally important to successfully overcoming issues around the systemic risk of MMFs. Part of this involved addressing the perception amongst investors that investments were effectively guaranteed, whether explicitly or implicitly. It is perhaps counterintuitive but the more that the MMF Regulation is revised to strengthen resilience, the more legislators increase the risk that investors will again view MMFs as guaranteed investments which, in turn, increases contagion and run risk should these MMFs experience issues. Therefore, it is critically important that legislators proceed carefully and with the objectives of the MMF Regulation clearly in mind.

<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>

We agree that some improvements to the MMF Regulation would be worthwhile (and, as noted in the Consultation Paper, a review is mandated by Article 46 of the MMF Regulation). However, in our view, the majority of the proposed MMF reforms outlined in the Consultation Paper would not be effective in achieving the stated goals of achieving a positive impact on the resilience of MMFs and the stability and functioning of the short-term funding markets. The points made in question 1 concerning the resilience demonstrated by MMFs during the COVID-19 March crisis and the fact that central bank interventions in the EU applied to the short-term market in general rather than MMFs specifically demonstrate that the MMF Regulation has been effective (otherwise MMFs would have required specific assistance) and that wholesale amendment is not necessary or warranted. It is better to comment on the specific proposals individually, which we have set out in our responses below.

As a general point, however, ineffective reforms would result in a real risk to investor behaviour if MMF products are made unusable. Investors would instead seek to rely on other products offered by banks or non-bank financial institutions. In that case, the related issues and risks would instead be transferred elsewhere in the market without mitigating them effectively. In particular, outside of bank deposits (which may not be available, given the potential inability or unwillingness of banks to accept cash following post-financial crisis prudential reforms), such products are likely to less transparent to investors than MMFs, less transparent to regulators than MMFs and generally offer less regulatory investor protections (or none) given that the majority of MMFs are UCITS but such alternatives would not be.

It is not feasible for the MMF Regulation to operate in a way that eliminates stress or run events. Therefore, in considering policy options, it could be beneficial for ESMA and the Commission to also identify actions to be taken to re-enforce investors’ understanding that MMFs are ultimately investment funds whose value can fall as well as rise and which are not akin to guaranteed bank deposits.

<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>

In the experience of our members, the linking of applicable regulatory liquidity thresholds to the imposition of redemption fees and gates as mandated by the MMF Regulation negatively influenced investor behaviour during March 2020 and, as noted in the Consultation Paper, there is some evidence to suggest that MMFs which were closer to the regulatory minimum thresholds suffered greater outflows during this period. We believe the issue of cliff edges will always arise whenever a hard limit is imposed that, once crossed, imposes a cost on those affected. In this instance, the imposition of a specific threshold for the imposition of gates/suspension does create an incentive for investors to exit a MMF before those thresholds are passed. While this was not the desired outcome when these thresholds were designed, it was foreseeable that investors might behave in this way. To address this issue, we support the proposal to decouple the regulatory liquidity thresholds from the imposition of redemption fees and gates.

We believe however that regulatory liquidity thresholds should be de-coupled entirely from mandatory actions to be taken by managers. In particular, we noted that the Consultation Paper does not refer to the requirement of Article 34(1)(a)(iii), which obliges the manager to consider a suspension of the MMF. We believe that de-coupling the redemption fees and gates from the liquidity thresholds, but leaving suspension linked to such thresholds, would simply shift investor focus from potential fees/gates to a potential suspension. As such, we believe Article 34(1)(a) should be removed in its entirety. Instead, the board of directors of the MMF should at all times have the ability to use its discretion to impose redemption fees or gates or to suspend an MMF where it is in the best interests of investors (similar to the fees/gates/suspension provisions applicable to UCITS generally). In addition, we continue to advocate for transparency for investors, and so we would recommend that the daily and weekly liquid asset levels should continue to be published (and indeed ESMA could consider increasing the frequency of this to daily). Finally, it is important that the regulatory liquidity thresholds still apply and so an MMF should continue to be prohibited from purchasing securities outside of the weekly liquid assets when the WLA level is below the regulatory minimum.

As regards the alternative of simply reforming the conditions for the use of gates, we do not believe this would achieve the desired outcome as the use of gates would still be tied to a particular threshold, which investors can monitor against and react to (i.e., pre-emptive redemptions from MMFs which come close to the threshold). In addition and specifically, the Consultation refers to the possibility that the imposition of gates would be subject to the prior approval of regulatory authorities. Given that a decision to impose a redemption gate would likely need to be taken at very short notice and often outside of normal business hours, requiring prior approval of a regulatory authority would not be feasible from a practical perspective. Further, the decision to impose a redemption gate is essentially an operation or business decision. Regulatory authorities are typically not better placed than MMFs or MMF managers to make decisions of this nature and it is not clear on what basis a regulatory authority would feel suitably placed to make such a decision.

<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>

There would be significant operational challenges to implementing a mechanism which passes liquidity costs directly to investors via an adjustment to the NAV (swing pricing). While doing so via the imposition of an entry/exit charge (ADL) would operationally be more feasible, we do not believe either mechanism would achieve the stated objectives, for the following reasons:

* + - Dis-incentivising redemptions / preventing first mover advantage: While the implementation of swing pricing / ADL could in theory dis-incentivise investors redeeming from an MMF by passing on the cost of liquidity, it could also incentivise investors to redeem prior to the imposition of such swing pricing / ADL. Such behaviour was evident in March 2020 where some investors, conscious of the potential imposition of fees/gates, were incentivised to redeem – there is no reason to think swing pricing or an ADL would be different.
    - The primary driver of redemption requests in March 2020 was investor need for cash and the primary impediment to meeting that need was the market wide liquidity crisis. Neither swing pricing nor ADL would impact either factor.
    - Timing of Decision: As the decision to implement swing pricing (where partial swing pricing is used) or impose an ADL would have to take place after dealing cut-off, it would be difficult to implement where an intraday, advanced payment model is utilised (noting that this is an important function and feature of MMFs for many investors).
    - Visibility and Pricing: As noted in the Consultation, “for those options to be effective, it is important to set a minimum level of transparency in CP and CD market”. At present and absent changes to the CP and CD market, there is not enough visibility into pricing (and pricing is not quick enough) to enable an accurate assessment of liquidity costs in the time that would needed in order to reflect same accurately in the NAV (swing pricing) or entry/exit charges (ADL).

<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>

We agree with the proposal that liquidity buffers should be clarified to remove or reduce any pro-cyclical effects they have. However, we would not agree that the proposed clarifications (options 1 to 3 in the Consultation Paper) would, on their own, achieve this aim (as discussed further below). While investors may monitor the liquidity of an MMF’s portfolio to understand the portfolio generally and assess whether changes in the liquidity of the portfolio are a cause of concern for them, it is our understanding that investors are primarily concerned with identifying whether the MMF is nearing a liquidity limit which, if crossed, would have an impact on the investor in terms of the imposition of liquidity fees or redemption gates. In other words, the reason the liquidity buffers may have contributed towards increased redemption pressures was the link between them and the requirement for the manager to impose suspensions/fees/gates rather than the liquidity buffers themselves. As such, and as described in detail in response to question 3, the best option to make liquidity buffers less pro-cyclical is to remove the link between them and suspensions/fees/gates. If this takes place, the other options set out in the Consultation should not be necessary.

That said, we have considered each of them in turn and have a number of comments on each. A material comment which applies to all options, however, is that in the absence of the de-coupling of fees/gates from the limits, none of these options are likely to have the desired effect. At best, the options would move the current cliff-edge but not remove it.

**Option 1**

This option envisages a potential decrease in the liquidity limits (and associated fee/gates thresholds). This option appears sub-optimal for the following reasons:

* + - Unless the circumstances in which the limits can decrease are clear and set out in advance, it is likely at least some investors will continue to focus on the headline, primary limits and determine their behaviour by reference to them.
    - One suggestion in the Consultation Paper is that the limits could be lowered when a fund experiences a high volume of redemption requests. Given one purpose of lowering the limits would be to make fees/gates (and therefore redemption pressures) less likely, this limit reduction trigger would appear to be inconsistent with the fee/gates thresholds themselves, which already refer to redemption levels (i.e., if redemption levels are high, fees/gates must be considered/imposed). In this proposal, high redemption levels would make fees/gates less likely on the one hand (by lowering liquidity limits) but more likely on the other hand (by triggering the consideration/imposition requirements).
    - In addition, linking the lower limit to redemption requests may have the opposite effect to that which is intended; investors could view a fund which meets the conditions for a lower limit as being more risky, therefore prompting redemptions.
    - Another suggestion in the Consultation Paper is that the limits could be lowered by the regulator. Leaving aside the absence of clarity as to which entity this would be (ESMA, the fund’s regulator or the manager’s regulator) and the resulting level playing field concerns, this option is unlikely to influence investor behaviour. If there is any uncertainty in the market as to whether the limits would be lowered, investors are not likely to stay in a fund (when otherwise they would have redeemed) simply because they anticipate a regulator potentially lowering the limits.

Where fee/gates are de-coupled from the liquidity limits, some of the concerns noted above (those regarding investor behaviour) should not apply. In that case, we welcome the broad idea that liquidity limits can be reduced to reflect certain circumstances. For example, where a fund is approaching the liquidity limits and it reports thereon to its regulator, the regulator could have the ability to allow the fund (for a limited period and up to a maximum amount) avail of a limit reduction. This would allow the manager to manage the fund solely in the best interests of investors, without having to rigidly respect a pre-determined, circumstance-unaware liquidity limit. However, this would have to be balanced against the risk that a lowering of the liquidity limit could lead to investors viewing such a fund as being more risky, therefore prompting redemptions. As such, the decision to accept a lower limit should be a manager decision, as it is best place to consider the risks involved.

Whatever the threshold for the reduction in the limit is, it should be clearly set out in advance and apply equally to all fund types

**Option 2**

This option envisages a buffer built into the liquidity, with such buffer being set by reference to stress test results. The first point to note about this option is that managers already do this as part of prudent risk management. The points of difference created by this option would be:

* + - The buffer forms part of the liquidity limit. Today, the buffer does not form part of the liquidity limit and when liquidity falls below the level of the buffer (but remains above the limit), there is no expectation that fees/gates will be imposed and therefore a “breach” of the buffer (or the threat of one) does not contribute to redemption pressure. Under this proposal, the buffer would form part of the limit and therefore would contribute to redemption pressure. This is a step-backwards from the status quo.
    - The buffer itself would be non-public (as it is today) but the requirement to have a buffer would be public. This would have an adverse impact on investor behaviour. As is the case today, investors would be aware that a requirement to consider/impose fees/gates exists but, unlike today, they would not be able to independently monitor the liquidity of a fund against the threshold (because the buffer would be non-public). This would create a known unknown for investors; such a lack of certainty makes behaviours hard to predict but probably makes redemptions in stressed environments more likely.
    - The regulator sets the buffer and can relax it. Whether a regulator sets/relaxes a buffer (option 2) or has the ability to reduce a limit (option 1) is ultimately the same thing (the regulator can move the cliff-edge) and as such, option 2 suffers from the same issues as option 1 noted above.
    - The buffer is set by reference to stress tests. While managers do refer to stress test results in determining their internal buffers, the stress test results are only one part of that consideration and are not even a primary one. The main reason for this is that stress test results are not “live” – in an actual stressed environment, the “live” data (portfolio composition, redemption levels, market liquidity) are far more relevant than the stress test data (based on a scenario that will inevitably not be identical to the live scenario and on portfolio/investor data that is out of date).

**Option 3**

This option envisages the liquidity limits changing by reference to a fund’s investor profile (and therefore its redemption profile). We have a number of comments on this:

* + - It is incredibly difficult to appropriately design this, primarily because it is not possible to accurately categorise investors by their redemption requirements. Investors can have very different liquidity needs in different stress scenarios depending on their access to other liquidity outlets. It’s also impossible to forecast the nature of future crises and therefore the differing behaviour of different investor types. The Consultation Paper refers to institutional investors but such a high level category would have been of limited use in March/April 2020 – for instance, some institutional investors (e.g., airlines) had an immediate need for cash (to compensate for a lack of income), whereas other institutional investors (e.g., supermarkets or online delivery businesses) had more cash than anticipated.
    - The profile of investors in a fund changes over time and can change significantly in a stressed environment. As such, the data on which this limit would be based can quickly become stale.
    - This would potentially create an uneven playing field, with unforeseen consequences. For example, a retail heavy fund may have a lower liquidity limit than an institutional heavy fund, which would create an incentive for a savvy institutional investor to be the sole institutional investor in an otherwise retail fund.
    - Managers are already obliged to “know their investors” (pursuant to Article 27 of the MMF Regulation) and as such managers already construct portfolios to align with the liquidity needs of their specific investor types.

<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>

It is worth bearing in mind that notwithstanding the availability of VNAV MMFs in the EU, investors have chosen to invest over half of EU MMF assets in CNAV and LVNAV MMFs. Investors clearly see a benefit from the CNAV and LVNAV MMF structures. If either structure was to be eliminated, that should only occur where it has been clearly proven that the risk of those structures outweighs the benefits which they bring to investors. But that is not the case - events during the COVID-19 March crisis have simply not proven that the elimination of CNAV and LVNAV funds is necessary or warranted. On the contrary, these MMF structures have demonstrated resilience during the COVID-19 March crisis and have not experienced issues that were not also felt by VNAV MMFs and investors in short-term markets generally.

Regarding the assertion in paragraph 119 of the Consultation that “*CNAV and LVNAV mechanisms imply nonlinearities (cliffs effects) by definition, and are therefore intrinsically prone to first-mover advantages and other amplification effects*”, please see the analysis in the response to Question 1 concerning the experience of VNAV MMFs during the COVID-19 March crisis. Those MMFs also experienced significant redemptions and also encountered liquidity issues when disposing of assets at that time notwithstanding that they do not have suspensions, gates and fees coupled with regulatory thresholds on liquid assets. Such, it is clear that issues relating to first-mover advantages and other amplification effects are not caused by the features of the CNAV and LVNAV structures but by the underlying lack of liquidity in markets generally.

Consideration around the elimination of CNAV-type MMF structures was carried out at length and in detail for a number of years when the MMF Regulation were drafted and negotiated. This debate should only be reopened if significant new evidence has been discovered in the interim which brings to light facts or data which was unknown at that time. But there is no such evidence. In fact, the resilience demonstrated by CNAV and LVNAV MMFs during the COVID-19 March crisis (including the fact that no such MMFs imposed gates, suspensions or redemption fees and no LVNAV MMFs crossed the 20 basis points collar) proves that the reforms introduced by the MMF Regulation are effective and that investors should continue to be given the choice to invest in CNAV and LVNAV MMFs.

Although Article 46 of the MMF Regulation specifically refers to considering “whether changes are to be made” to the regimes for CNAV and LVNAV MMFs (please note that Article 46 does not refer to the elimination of CNAV or LVNAV MMFs), the Consultation should also direct attention to the performance of VNAV MMFs during the COVID-19 March crisis. Such analysis is crucial to ensure that ESMA is drawing appropriate conclusions in relation to CNAV and LVNAV MMFs. For example, LVNAV MMFs experienced significant outflows during the COVID-19 March crisis which could tend to indicate that the coupling of suspensions, gates and fees to thresholds on daily and weekly liquid assets created a cliff effect. However, data from the COVID-19 March crisis demonstrates that VNAV MMFs also experienced significant outflows and issues with liquidity at that time notwithstanding that VNAV MMFs do not have suspensions, gates and fees coupled to regulatory thresholds. How is this explained? Does this explanation merit ESMA reconsidering its analysis of possible cliff edge effects in CNAV and LVNAV MMF structures?

Absent a broader and fuller consideration of the impact of the COVID-19 March crisis on all MMF structures and on short-term markets generally, ESMA runs the risk of jumping to conclusions concerning CNAV and LVNAV MMFs and to reopening discussions around the merits of these structures when this is not justified by the facts.

<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>

We do not believe the existing prohibition on external support requires clarification or amendment.

We note that the Consultation Paper considers the possibility of permitting external support or even requiring it. We do not support either option. It would lead to increased consolidation (where managers unable to provide explicit support leave the market), an uneven playing field (which favours bank sponsored managers and others who themselves can receive support) and potentially complex issues regarding the balance sheets / capital requirements of those providing support.

<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>

Whilst theoretically there was a risk that managers may have taken actions in March 2020 to prevent a ratings downgrade, the practical experience was that focus of managers was on liquidity, meeting redemption requests and complying with regulatory thresholds. As such, the MMF ratings did not play a material role in the management of MMFs. In our opinion, this would be the case in future stressed market conditions. Moreover, we note that the credit rating agency requirements materially overlap with the MMF Regulation or the MMF Regulation is more stringent. As such, we do not believe that there is a need to introduce regulatory requirements for MMF ratings. It is reasonable to assume that if the MMF Regulation were amended (for example, to decouple regulatory thresholds from the imposition of gates and fees), the requirements applied by credit rating agencies to MMF ratings would follow suit and be similarly amended.

Regarding investors, the experience of our members is that ratings are an important tool for investors as they give assurance that a skilled independent party is reviewing the MMF. In particular, the rating agencies review certain criteria which are not addressed in the MMF Regulation (and with respect to which therefore managers are not subject to MMF Regulation-specific obligations), including due diligence of the manager’s organisation, investment and asset class experience, reporting and oversight, compliance, systems and controls, and fund board/governance structures. Removing this oversight would be a poor outcome for investors and potentially risk a deterioration in those areas not covered by the MMF Regulation.

In addition, some investors are bound to invest in AAA MMFs and so they serve an important purpose in this respect.

In the event that an MMF experiences difficulties and, for example, imposes fees or gates, investors are likely to seek to redeem as soon as possible and potential future investors are not likely to invest in an MMF which imposed fees or gates in the past. Such an MMF is also likely to see its rating downgraded. However, while such an MMF may also be downgraded, the investor behaviour described here would have been informed by the imposition of the fees / gates that drives investor behaviour, not the downgrade itself. In other words, investors are likely to seek to redeem from an MMF which has been downgraded.

Finally, there may have been an assumption on behalf of legislators when crafting the MMF Regulation that ratings of MMFs by credit rating agencies were, in fact, credit ratings. This is understandable given that a number of the criteria assessed by credit rating agencies when assigning MMF ratings include assessments of issues related to creditworthiness (e.g. minimum credit quality and counterparty credit risk). Article 26 should be amended to require a similar prospectus disclosure where a credit rating *or MMF rating* is solicited or financed by an MMF or the manager of an MMF.

<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>

The imposition of mandatory actions for stress testing is not likely to result in positive change. 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 that relies on a functioning short-term market. The challenge in March 2020 was not an unwillingness of managers to undertake portfolio repositioning, it was that the short-term funding market was unable to handle it (which is reflected in the commentary in the Consultation Paper in respect of the liquidity of the underlying market in March 2020). Enhanced stress testing would not address this issue and therefore would not necessarily assist or enhance liquidity management by fund managers and the resilience of MMFs in stressed market conditions.

In addition, we would not support mandatory actions based on MMF stress tests since these stress tests can quickly become out of date in stressed market conditions. Instead, stress test results should be used to drive engagement with regulatory supervisors if there is a concern in respect of a particular MMF and we would note that mechanisms for this process already exist in Ireland.

Taking account of the actions of other MMFs / sending stress tests to ESMA directly would risk creating a herd effect, whereby all managers would take the same actions at the same time or would be requested by ESMA to do so. It is also worth noting that the existing the stress testing provisions require consideration of reference parameters that include the 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 testing rules require MMFs to consider factors which could be simultaneously affecting other MMFs and the markets as a whole.

The existing requirements for MMF stress testing provided for within Article 28 of the MMF Regulation and the ESMA guidelines already include provision for the enhancement of stress testing conducted in respect of MMFs, and ESMA has done so via its December 2020 recalibration. We believe the more stringent tests already required as part of the changes introduced in December 2020 will positively impact manager behaviour and portfolio composition of MMFs.

<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>

Very detailed reporting is already carried out for MMFs in Ireland, including on a daily basis. Moreover, our experience from March 2020 onwards was that there was very frequent “unstructured” reporting at the request of the Central Bank of Ireland. As such, we believe reporting is already sufficiently thorough.

We do not believe that additional regulatory reporting would influence investor behaviour as they do not have any visibility on the reporting carried out. Such reporting is also unlikely to have any effect on manager behaviour – regulatory reporting provides transparency into the activities of the manager after the event, rather than influencing manager behaviour regarding current events.

As a measure to address stressed market conditions, it should be borne in mind that regulatory reporting is generally historic and does not offer a current picture of the MMF in question. In our opinion, more detailed reporting that is not live does not offer any benefits to regulators. However, we would suggest that the unstructured but frequent reporting requested by the Central Bank following March 2020 could be formalised to a form of “live” reporting which may be useful for regulators in stressed market conditions. It would be difficult to define precise parameters to trigger additional reporting in stressed market conditions and the precise content and frequency of reporting would need to vary depending on the nature of the crisis in question. Therefore, it may be more effective if the MMF Regulation were amended to include a general power for regulators to request more frequent reporting in stressed market conditions.

<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 are supportive of introducing more transparency in the short-term markets in respect of the disclosure of MMIs, including the post-trade information outlined in the Consultation Paper, which we think would positively impact the stability and functioning of short-term funding markets and in turn enhance the resilience of all MMFs.

The disclosure of investor types in MMFs is already provided for, as noted in the Consultation Paper, but this is of limited use in this context as different investors within the same investor category may react very differently depending on their specific needs. While it may be appropriate to classify ‘institutional’ investors as more likely to redeem than ‘retail’ investors, relying on this alone as a guide to action would be inappropriate as there are many nuances at play (for example, amongst institutional investors, during March 2020 airlines had a material need for cash but supermarkets had more cash than usual, and these trends also differed country by country). It could also disadvantage some MMFs over others, for example, MMFs with a high concentration of institutional investors (even if such MMFs were managed more prudently than a comparable retail fund). The profile of investors in a MMF can significantly change over time, particularly due to large redemptions, which are more likely in stressed conditions and so any data used to analyse the investor base can quickly become out of date. Such a requirement could cause an unintended consequence of institutional investor-dominated MMFs being deemed more risky, even when managed prudently, thereby fuelling exit from these MMFs which would bring greater instability to the market.

It is therefore very 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.

<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:

**What should be the appropriate size of such a pooling vehicle as the LEF?**

**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?**

**How long would it take to establish such a LEF?**

**Under which conditions would the LEF be activated?**

**Who would be responsible for activating the LEF**.

<ESMA\_QUESTION\_MMFR\_12>

It is very difficult to assess the viability or suitability of the creation and operation of a LEF given the current lack of detail provided in the Consultation Paper. As a general point, and noting that the objective of the establishment of such an entity or structure might have its advantages for the stability of MMFs, as it currently stands, we would not agree with the above assessment on the potential creation of a LEF. This assessment is based on the challenges and disadvantages which we believe would result for MMFs were such a LEF to be created, as well as the difficulty we would anticipate in addressing the open questions that the creation of such an entity or structure would bring. We have set these concerns out in more detail below.

Firstly, a key concern with this proposal would be the difficulty in evaluating the appropriate size of the LEF in light of the fact that it is impossible to predict the next stress event or market crisis, meaning any estimates in this respect would be subject to that inherent and important risk. Given the significant liquidity issues that were experienced by some MMFs during the COVID-19 crisis, the LEF would need to be substantial enough in size to cover a severe or extreme deterioration of liquidity in stressed market conditions. With this in mind, the question would remain as to whether the facility is sizeable enough to effectively mitigate liquidity pressures on MMFs and as such, even with an established LEF, the risk of needing intervention from governments or central banks as a result of a future stress event would, in our view, still remain. This is a major concern which could, if it came to pass, obviate the whole purpose of establishing such a facility.

Our second concern relates to the manner in which the LEF would be funded. Given that the LEF would be a pre-funded facility and may be funded by MMFs, this could potentially result in an incentive for the MMF to obtain some value from the cost of funding the LEF, therefore encouraging excessive risk taking by MMFs. While accepting that both MMFs and the LEF would be subject to EU supervision, the establishment of a LEF may potentially create a new moral hazard whereby MMFs are inadvertently encouraged to take additional excessive risk, noting that this could effectively result in a syndication of risk across the industry. In addition to this, and from a practical and commercial perspective, any funding of the LEF by the MMFs themselves could also impact a MMF’s yield, which would detract from the attractiveness of this proposal. It is also worthwhile noting that the level of funding required from MMFs remains subject to the interpretation of the requirements of Article 35 of the MMF Regulation regarding external support. This creates a challenge in ascertaining how much funding could, in practice, be provided by other sources and consequently, how much will need to be provided by MMFs for the LEF to be a worthwhile and viable solution for the industry.

Another issue which this proposal gives rise to is the length of time it could take to establish a LEF. As one can appreciate, this is subject to a number of factors, including the appropriate size of the LEF and the way in which such a LEF is funded. Noting the challenges this would entail, this may not be done expediently enough to deal with any major stresses which arise in the market in the intervening period for which the LEF was designed to manage. In addition to this, for such a LEF to be effective, we would be of the view that it would need to be established on global basis with eligibility for all currencies. Naturally this would inevitably result in significant legal and co-ordination challenges, and as such would also likely result in a lengthy establishment process.

As noted above, it is not possible to predict the next stress event or crisis and therefore the conditions under which the LEF could or should be activated are hard to measure. Undoubtedly, if any such entity or structure were to be effective it would be necessary to put in place very strict criteria for the activation of such a facility for MMFs to transact with during a crisis. Detailed analysis and consideration would need to be given to this element before progressing the proposal any further to assess whether, in the parameters of such criteria, the LEF would be fit for purpose.

Finally, as a general point we would be of the view that while the intentions behind the establishment of a LEF are to benefit MMFs in times of crises and stress, it should nonetheless not be the role or duty of MMFs to create a facility which seeks to resolve issues associated with short term markets.

<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 consider that uncertainty regarding the scope of the MMF Regulation is currently an issue.

<ESMA\_QUESTION\_MMFR\_13>