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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 | Securities Industry and Financial Markets Association Asset Management Group |
| Activity | Asset Manager Association |
| Are you representing an association? |  |
| Country/Region | Other |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_MMFR\_1>

The Asset Management Group of the Securities Industry and Financial Markets Association (**SIFMA AMG**)respectfully submits its responses to the Consultation Report of 26 March 2021 (the **Report**)with respect to the request by the European Securities and Markets Authority (**ESMA**) for comment on potential reform of the EU Money Market Fund Regulation (**MMFR**).

SIFMA AMG brings the asset management community together to provide views on policy matters and to create industry best practices. SIFMA AMG’s members represent U.S. and multinational asset management firms whose combined global assets under management exceed $39 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

We appreciate the opportunity to provide our views to ESMA on these matters that have the potential to impact not only the direct regulation of money market funds, but also the overall functioning of the short-term funding markets.

<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>

Money Market Funds (**MMFs**) are an important source of funding for the short-term funding markets and, like other participants in the short-term funding markets, experienced stress resulting from market-wide liquidity events related to the COVID-19 pandemic. Playing a role in the markets and reacting to market stresses, however, should not be confused with causing such market stresses. MMFs were not the root cause of the stresses in the short-term funding markets in March 2020, but, rather, were like other participants in the short-term funding markets managing through a much larger market-wide liquidity crisis. The vulnerabilities are not specific to MMFs themselves, their structure or the regulatory framework, but rather are inherent to the short-term funding market instead.

Importantly, the events of March 2020 were due to a liquidity crisis with redemption behaviour driven by concerns of liquidity and ability to access cash, rather than a credit crisis with redemption behaviour being driven by concerns regarding the underlying credit quality. The market disruption caused in March 2020 was a result of a ‘black swan’ event, which created an unprecedented and exceptional demand for liquidity by a wide range of market participants (across markets), rather than due to any idiosyncratic deficiencies in the MMF industry. We note that almost immediately after the most acute period of stress had passed, MMFs observed net inflows. Therefore, SIFMA AMG believes that MMFs demonstrated resilience in March 2020.

SIFMA AMG’s comments on the vulnerabilities identified in the Report are summarised below:

1. *Liquidity in private money markets*: The private money markets are generally liquid markets under normal market conditions. MMFs provide investors with a highly regulated product that provides the benefits of high levels of liquidity, deep investor base, minimal credit risks, diversity of holdings, strict maturity requirements, low principal volatility, and a high level of transparency. MMFs also offer investors same day liquidity, a valuable feature and benefit to many types of investors. Therefore, generally speaking, MMFs are a highly liquid product in normal market circumstances and this is their key attractive feature as an investment product. In addition, SIFMA AMG generally agrees with ESMA’s findings that the limited capacity (or willingness) of banks to act as dealers was an issue in the March 2020 crisis, but this was mainly due to the capital constraints imposed on banks, rather than an operational problem in the MMF markets in general.
2. *Role of regulatory constraints for Low Volatility Net Asset Value (****LVNAV****) MMFs and of redemption fees and gates*: SIFMA AMG believes that certain aspects of the regulatory regime applicable to MMFs, mainly the linking of levels of liquidity with the ability to impose liquidity fees and redemption gates, proved to have negative unintended consequences that amplified the redemption behaviour exhibited by certain types of MMF investors in response to the market-wide lack of liquidity that arose in March 2020. In particular, linking the ability to impose liquidity fees and redemption gates to a specified level of weekly liquid assets incentivised institutional investors to redeem as a fund’s liquidity approached the threshold at which a liquidity fee or redemption gate could be imposed, given this would restrict their ability to access cash. As a result, the 30% weekly liquid asset threshold essentially became a floor that could not be utilised by the fund manager. Furthermore, to assuage investor concerns, MMFs sought to establish additional buffers over and above the minimum regulatory thresholds, essentially becoming forced sellers in a rapidly deteriorating market. Accordingly, the delinking of liquidity thresholds from the imposition of liquidity fees and redemption gates should be the focus of any potential future rulemaking.
3. *Role of credit rating agencies*: SIFMA AMG’s view is that MMF ratings did not have a significant bearing on the events in March 2020, neither for managers nor investors, and were not a significant factor in incentivising investor behaviour. The March 2020 liquidity crisis was irrespective of the credit quality (or credit rating) of the underlying securities. The main issue was liquidity and in the majority of cases redemptions were not related to a potential downgrade. This is further supported by the fact that standard VNAV MMFs, which are not rated per the various MMF criteria, saw material redemption pressure. In addition, ratings are an important tool for investors. MMF ratings provide a benefit for MMF shareholders as the credit rating agencies serve an objective role in assessing MMFs and the credit rating agencies’ criteria align with and support MMFR. So MMF ratings actually provide a benefit to the resiliency of MMFs, are in line with and complement the MMFR and serve investors as a second set of eyes to assess the details of a MMF for further assurance and confidence.

<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>

MMFs play an important role in the orderly functioning of the short-term funding markets and serve valuable financial and economic functions for a variety of investors and the capital markets more broadly. Policy measures that have the effect of eliminating or significantly decreasing the size of the MMF sectors will significantly impair the resilience and orderly functioning of the short-term funding markets.

SIFMA AMG fully shares ESMA’s view that the main objective of the review of the MMF Regulation should be to make MMFs more resilient to stressed market conditions without the need of (implicit) central bank support and to reduce their contribution to the building up of risk in the financial system, while preserving the key intermediation role that MMFs perform in the short-term funding markets. It is important, however, to calibrate changes appropriately so that new requirements do not discourage the launching and management of MMFs as that would have a negative impact on short term funding in European markets.

Therefore, as an introductory matter to comments on the specific policy measures in the Report, SIFMA AMG is of the view any policy measures should be narrowly tailored, data driven, simple to understand and implement, and calibrated to address the liquidity pressures that manifested in a relatively small segment of the MMF industry in a manner that preserves the viability of such products for investors.

Because changes to MMFs may have far-reaching, unintended consequences that are detrimental to shareholders and the broader short-term funding markets, we urge that any changes be narrowly tailored to avoid unnecessary disruption. Tailoring reform narrowly will benefit markets by easing the process of adjusting to changes, and providing a basis to evaluate the need for further actions based on the results achieved. Reforms should also be tailored in a manner to preserve the simplicity of the MMF product and be easy to understand for investors. Overly complicated policy measures risk investor confusion and reduce the utility of the MMF wrapper. As a general remark, SIFMA AMG is of the view that the MMFR framework has largely proved to be effective, given that MMFs demonstrated resilience in March 2020, met investor redemptions in full, there was no need to impose fees/gates or suspend redemptions and no LVNAV breached the 20bps collar. Consequently, SIFMA AMG does not believe that wholesale reforms of the MMFR are necessary, apart from the decoupling of regulatory thresholds from suspensions/gates, which we consider a key measure in order to address similar issues like the ones experienced in March 2020.

Our comments regarding the specific proposed reforms are summarised below:

*Reforms targeting the liability side of MMFs*

1. *Decouple regulatory thresholds from suspensions/gates* – SIFMA AMG strongly supports the decoupling of regulatory thresholds from suspensions/gates. Our members view this policy measure as most directly and meaningfully addressing, in a practical manner, the issues that contributed to stresses on MMFs and the short-term funding markets in March 2020 and therefore is an essential element of any reform for MMFs.
2. *Require MMFs to use swing pricing and/or anti-dilution levies (ADL) / redemption fees* – SIFMA AMG does not support swing pricing requirements for MMFs and believes that imposing such a requirement for MMFs would be ineffective in achieving the goals for reform included in the Report. Swing pricing presents significant operational impediments in implementation due to the settlement process for MMFs, fundamental differences between redemption activity and related transaction costs of MMFs as compared to other types of open-end mutual funds. Swing pricing would also result in the elimination of intraday settlement and impede a MMF’s ability to ensure same-day settlement, a key feature and benefit for various types of investors. Further, many of the reasons that swing pricing may benefit other types of mutual funds in managing liquidity risks are less applicable to MMFs, including that MMFs routinely handle large redemptions without similar transaction costs, given the high-levels of liquidity that is organically generated by an MMF, that may be borne by other types of open-end mutual funds.

*Reforms targeting the asset side of MMFs*

1. *Increase liquidity buffers, review their calibration and/or make them usable/countercyclical* – SIFMA AMG supports the principle that buffers should operate in a countercyclical manner. However, while we do not oppose countercyclical weekly liquid asset requirements, our members consider that these are a less effective policy measure than the delinking of liquidity and liquidity fees and gates in resolving the liquidity pressures experienced by certain types of MMFs in March 2020 and achieving the overall goals of MMF reform. Although countercyclical requirements may be useful in principle, SIFMA AMG views countercyclical requirements, as presented by ESMA in the consultation, as having the potential to create a bright line test that can increase redemption behaviour. Furthermore, the difficulty in administering countercyclical requirements can impede any countercyclical requirement’s effectiveness. SIFMA AMG therefore supports the delinking of liquidity and liquidity fees and redemption gates over imposing countercyclical weekly liquid asset requirements because should ESMA delink liquidity and liquidity fees and redemption gates, many of the benefits of the countercyclical weekly liquid asset policy measure will have been achieved (lessening redemption pressures as a MMF approaches a specified level of minimum weekly liquid assets and improving the usability of liquidity buffers) but in a more effective manner with potential for fewer unintended consequences.

*Reforms targeting both the liability and asset side of MMFs*

1. *Eliminate stable NAV MMFs / Convert Public debt CNAV and LVNAV funds to Public Debt VNAV and VNAV / Convert only LVNAV funds to VNAV* – SIFMA AMG strongly opposes a requirement for all MMFs to float their net asset value because such a policy measure does not address the contributors to stresses in the short-term funding markets in March 2020, does not improve the resilience or functioning of the short-term funding markets, and would not decrease the likelihood of future official sector intervention. At the same time, it is unlikely that the entire investor base would be prepared to move to VNAV structures (for example due to restrictions in their investment policy), which could negatively impact the size of the short-term funding market.

*Reforms that are external to MMFs themselves*

1. *Assess whether the role of sponsor support should be modified (e.g. amend the current requirement of article 35 of the MMF Regulation under which sponsor support is prohibited)* – SIFMA AMG does not support sponsor support and therefore does not agree with amending Article 35 MMFR, in its substance. That being said, SIFMA AMG welcomes further clarity on what constitutes sponsor support and what does not so that there is less confusion and strengthen the level playing field in the market.

*Other proposals*

1. *Amend/specify the rules on ratings of MMFs* – SIFMA AMG does not support amending or specifying rules regarding ratings of MMFs. As mentioned above, MMF ratings actually serve a benefit to the resiliency of MMFs, are in line with and compliment MMFR and serve investors as a second set of eyes in assessing the details of a MMF and therefore provide further assurance and confidence to investors.
2. *Disclose money market instruments (MMIs) main categories of investors to regulatory authorities (e.g. detailed information on liabilities)* – While we appreciate that certain reporting requirements may assist regulatory authorities in monitoring systemic risk more generally, we consider that in this particular case the disclosure of main categories of investors to authorities would not achieve the desired effect, as client behaviour can be very inconsistent, especially in times of stress. Therefore, we do not support this proposition on the basis that it would introduce additional administrative burden, without necessarily achieving the intended result.
3. *Strengthen the role of MMF stress-testing (including from a system-wide perspective)* – Again while stress-testing can be a valuable tool in terms of helping to develop resilience in the sector, SIFMA AMG does not believe that strengthening the role of stress-testing would have a significant benefit in this particular case. The models/calibrations are already very conservative and portfolio positioning cannot be designed to mitigate such scenarios on an ongoing basis, including because stress testing data can quickly become stale given that they are based on hypothetical or historical scenarios.
4. *Further harmonise and enhance international MMFs reporting framework* – We do not consider that introducing additional reporting requirements would make MMFs more resilient.
5. *Set-up a liquidity exchange facility (****LEF****) funded by MMF or asset managers and depending on the requirements of article 35 of the MMF Regulation, by third parties, on an on-going basis* – SIFMA AMG strongly opposes bank-like requirements for MMFs, such as putting in place a LEF. LEFs present significant issues with respect to shareholder transparency if the LEF is running out of capacity. Disclosing that the LEF is running out of capacity would risk a run by causing investor alarm. Rather than acting as a safety net and preventing a run, this could produce the unintended consequence of triggering investor fear and therefore a run.
6. *Further clarify the scope of the MMF Regulation* – While we do not consider that wholesale changes would be necessary, we would welcome some clarity around the distinction between an MMF and a short-term bond fund.

<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. *Removal of tie between liquidity and liquidity fees on redemptions/redemption gates:*

SIFMA AMG strongly supports the decoupling of regulatory thresholds from suspensions/gates. Our members view this policy measure as most directly and meaningfully addressing, in a practical manner, the issues that contributed to stresses on MMFs and the short-term funding markets in March 2020 and therefore is an essential element of any reform for MMFs. SIFMA AMG believes delinking liquidity and thresholds for imposing liquidity fees and redemption gates is the most effective way to achieve the goals of MMF reform and therefore an essential element of any MMF reform, and that additional reforms (if any) should be paired with this policy measure for the most effective outcome.

Requirements to maintain a minimum level of weekly liquid assets do not serve their intended purpose if MMFs are not willing or able to use liquidity buffers in times of stress. Accordingly, decoupling of regulatory thresholds from suspensions/gates is a vital part of effectively addressing the issues that may have contributed to stress in the short-term funding markets in March 2020. Improving the usability of liquidity buffers, as this policy measure will do, will better equip MMFs to manage through times of stress and will therefore help improve the resilience and functioning of the short-term funding markets. Moreover, by removing one element that increased redemption behaviour in March 2020, this policy measure helps reduce the likelihood that official sector interventions would be needed to halt redemptions.

This policy measure as presented in the Report would still maintain liquidity fees and redemption gates as a tool which MMFs could use to help slow redemptions in appropriate circumstances, but would instead be subject to a determination by the MMF’s board of trustees/directors that the imposition of such a liquidity fee or redemption gate was in the best interests of the fund, without that determination being tied to a specified level of liquidity. This would mean that the utility and protections provided by liquidity fees and redemption gates would remain available to MMFs; however, the aspects of such liquidity fees and redemption gates that contributed to liquidity pressures on some money MMFs would be removed.

SIFMA AMG supports applying the decoupling policy measure to all types of MMFs that are currently subject to liquidity fees and redemption gates (i.e. PDCNAVs and LVNAVs). The dynamics that motivate redemptions in the face of a bright line liquidity threshold that is tied to a liquidity fee or a redemption gate apply regardless of whether the MMF is a PDCNAV or a LVNAV. Further, creating a consistent framework for all types of MMFs subject to liquidity fees and redemption gates as to when such liquidity fees and redemption gates may be imposed may also alleviate the potential for investor confusion.

Given that liquidity is of primary importance to MMF investors (particularly institutional investors), the removal of the link between the weekly liquid assets requirement and the possibility to impose fees and gates is not expected to result in MMFs holding less liquidity in normal market conditions. First and foremost, the weekly liquid assets requirement is a standalone provision of the MMFR that funds will need to comply with. During periods of heightened market volatility, the evidence and the experience of the sector in previous episodes of stress, indicates that MMFs are operated conservatively in order to be equipped to manage redemptions. Moreover, increased investor transparency through daily website reporting, further incentivises conservative liquidity management of MMFs. So removing the tie between liquidity and liquidity fees/gates would not result in MMFs holding less WLA (i.e. less than 30%). In this regard, SIFMA AMG is of the view that MMFs (including VNAVs) could face broadly speaking similar problems regarding liquidity and should, therefore, be subject to the same liquidity requirements, in order to protect investors and create a level playing field in the market. However, the distinction between an MMF (which is subject to said liquidity requirements) and a short-term bond fund (which is not) should be clarified further (we discuss this issue in more detail in our response to Question 13).

To the extent liquidity levels remain a concern of ESMA in considering this policy measure, SIFMA AMG encourages exploration of measures, other than liquidity fees and redemption gates, that could be imposed in a manner that does not motivate increased redemption behaviour if a fund’s level of weekly liquid assets decreases below 30% (for example requiring increased board reporting). However, SIFMA AMG cautions against imposing requirements that would add undue burden to a MMF and its adviser during a time of stress. Rather, we are supportive of maintaining ability of the board to assess the situation and act in the best interests of the fund investors.

On the basis of the above, SIFMA AMG is of the view that Article 34(1)(a) of the MMFR should be removed in its entirety (including sub-paragraph (iii) relating to suspension of redemptions).

1. *Reform of conditions for imposing redemption gates:*

While SIFMA AMG does not generally oppose certain reforms of conditions for imposing redemption gates, SIFMA AMG believes these measures will be less effective than the decoupling of regulatory thresholds from suspensions/gates in addressing the specific issues presented in March 2020 and achieving the overall goals of MMF reform.

Requiring MMFs to obtain permission from the regulatory authorities or notify the regulatory authorities prior to imposing gates is unlikely to address the issues that occurred in March 2020. Steps that impose additional time between the determination of imposing a redemption gate and the actual implementation of such gate reduce the utility of the redemption gate, especially in a time of market stress, and are therefore unlikely to increase the resilience of the short-term funding markets. Investors’ adversity to redemption gates that drove increased redemption behaviour as funds approached 30% of weekly liquid assets is rooted in a concern of liquidity and fear of an inability to readily access funds. Requiring advance notice to the regulatory authorities, or permission from the regulatory authorities, does not remedy investors’ concerns and is therefore unlikely to address the contributors to stresses in the market such as those experienced in March 2020.

Conversely, lowering the weekly liquid asset threshold for considering a redemption gate (either full or partial) would enable a MMF to use its liquidity buffer in a more meaningful way. As noted earlier, although MMFs maintained liquidity buffers entering the market stresses in March 2020, many MMFs did not employ those buffers out of fear that as weekly liquid assets reached closer to 30% investors would increase redemption activity to avoid a liquidity fee or redemption gate. Requirements to maintain a minimum level of weekly liquid assets do not serve their intended purpose if funds are not willing to use liquidity buffers in times of stress. In considering the redemption behaviour in March 2020, allowing a MMF to use 20% of the weekly liquid asset buffer while leaving the 10% level as the threshold at which the board may consider a gate, could be a potential alternative solution. Because this still maintains the dynamic of a bright line threshold that may increase redemption behaviour, however, SIFMA AMG maintains that decoupling of regulatory thresholds from suspensions/gates is the most essential element of any MMF reform.

In terms of potential alternative measures, SIFMA AMG does not agree with the introduction of a requirement for swing pricing, because in our view it would not address the issues that arose in March 2020 and therefore mitigate liquidity risks in the future (see responses to question 4). Regarding other proposed measures, SIFMA AMG does not oppose countercyclical weekly liquid asset requirements in principle, but considers that this may not be as effective as the decoupling of regulatory thresholds from suspensions/gates (see responses to question 5).

<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>

SIFMA AMG does not support swing pricing for MMFs as it will not address any of the overarching goals for reform stated in the Report. Further, swing pricing is not necessary for MMFs and would not result in the same benefits, or address the same issues, that swing pricing addresses in other open-end funds due to differences in how MMFs handle redemptions as compared to other open-end funds. Rather, SIFMA AMG would support the fund board’s ability to impose liquidity fees, acting in the best interests of the investors.

The overarching objective of swing pricing is to protect remaining investors from having their holdings’ diluted by the activity of redeeming/subscribing investors. It is not typically applied to reduce redemption pressure – while it can do to an extent within a given fund, if investors look to avoid the swing factor, it is less applicable where the redemption pressure is system-wide.

Swing pricing adjusts a fund’s net asset value downward when net redemptions exceed a threshold to pass to redeeming shareholders certain transaction costs associated with their trading activity. Many of the reasons that swing pricing may benefit other mutual funds in managing liquidity risks are less applicable to MMFs. While a bond fund may be likely to have to sell bonds to meet redemption requests, MMFs frequently handle and meet large redemptions under normal circumstances and typically know when to expect to such redemptions. These redemptions are typically paid out of liquidity reserves and not by selling assets. Indeed, during the March 2020 crisis, many MMFs were selling their assets to maintain additional WLA above their regulatory requirements, in order to assuage investor concerns over the potential imposition of fees and gates, rather than to meet redemption requests.

As such, MMFs typically let securities mature to meet redemptions out of liquidity reserves and therefore do not incur transaction costs as bond funds do in meeting redemptions (or incur transaction costs at a much lower rate). The level of transaction costs associated with MMF trading is much lower than the transaction costs of other mutual fund trading due to the types of securities in which MMFs invest such that any swing factor is likely to be too small to achieve the stated goals of this policy measure. Based on this, the reasons and benefits for implementing swing pricing simply do not make sense for MMFs and swing pricing is therefore unlikely to address any liquidity issue that arose in March 2020. To our knowledge, swing pricing has not been tested to show that it would be helpful for MMFs given the small pricing differentials in the securities held by MMFs.

Many MMF investors (primarily, but not exclusively, institutional investors) use intraday and same-day settlement to move money in and out of their accounts intraday for a variety of time-sensitive business and personal transactions. This is considered a critical feature of MMFs for such investors. Same-day settlement transactions are those where the order (either buy or sell) is sent to the MMF and the money settlement, for both purchases and redemptions, also occurs on the same day on which the money is sent for the order. Thus, the entire settlement process is completed on the same day. Swing pricing would effectively eliminate intraday settlement due to operational and timing issues, as implementing swing pricing would require net flow information at the end of the day (which would not be available for intraday movements). Same-day settlement transactions are also subject to operational timing issues and imposing a swing pricing requirement could significantly impair a MMF’s ability to provide same day liquidity and therefore undermine the utility of the product for investors. These concerns may be more complex for MMFs used as sweep accounts.

Additionally, unlike other open-end mutual funds, certain MMFs strike their net asset value multiple times a day. This presents additional challenges in implementing swing pricing. Implementation of swing pricing would require substantial reconfiguration of current distribution and order-processing practices.

Further, a MMF is permitted to impose a liquidity fee on redemptions in certain circumstances, and these fees serve a similar purpose as the net asset value adjustments contemplated by swing pricing by allocating at least some of the costs of providing liquidity to redeeming rather than non-transacting shareholders. The purpose served by liquidity fees would not be diminished even if liquidity fees are delinked from requirements related to weekly liquid asset levels. Accordingly, MMFs have tools at their disposal to accomplish similar goals as swing pricing, but such tools are fashioned in a manner that reflects the unique manner in which MMFs operate in order to still permit MMFs to provide same day liquidity.

As a general comment, SIFMA AMG is of the view that the introduction of bright line rules is not an effective measure for the prevention of future crises, as it would increase the risk that both managers and investors react in a coordinated fashion to unusual market events (which in turn would amplify shocks). Therefore, such measures would not address issues similar to the ones of March 2020.

<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>

SIFMA AMG does not agree with the proposal to increase liquidity thresholds. While we do not oppose countercyclical weekly liquid asset requirements in principle, many of our members consider that increasing liquidity buffers and/or making them countercyclical is overall a less effective means to achieve similar goals as decoupling of regulatory thresholds from suspensions/gates and that it presents significant implementation challenges (especially if these require action by the relevant regulatory authority). In particular our members do not believe that such a measure would addresses redemption incentives – as essentially this would replace one trigger for another. MMF managers should be able to use liquidity buffers in the best interest of MMF/investors. SIFMA AMG therefore supports the decoupling of regulatory thresholds from suspensions/gates over countercyclical weekly liquid asset requirements. If there is no regulatory link between the level of liquidity thresholds and imposition of fees or gates, MMF managers will be able to use the weekly liquid asset threshold in a countercyclical way. Accordingly, should ESMA decide to delink liquidity and the imposition of liquidity fees and redemption gates, many of the benefits of countercyclical liquidity asset requirements will be realised and many of the goals of MMF reform would have been achieved in a more effective manner than through a countercyclical policy measure. Both policy measures would reduce the salience of the liquidity threshold to diminish the incentive for increased outflows and improve the usability of weekly liquid asset buffers. However, countercyclical weekly liquidity asset requirements could be less effective in doing so by still maintaining the potential for a bright line threshold that could incentivise redemptions and by introducing additional unnecessary complexities as compared to the decoupling of regulatory thresholds from suspensions/gates. Any externalised trigger for liquidity fees and redemption gates, even with countercyclical adjustments, has the potential to incentivise redemption behaviour.

The decoupling of regulatory thresholds from suspensions/gates mitigates the drawback related to countercyclical weekly liquid asset requirements that threshold effects may still motivate investors to redeem by removing the threshold liquidity requirements to impose a liquidity fee or redemption gate. Maintaining a threshold at which liquidity fees or redemption gates could be imposed, but shifting that threshold through countercyclical weekly liquid asset requirements, has the potential to exchange one red flag for another and mitigate the usefulness of countercyclical weekly liquid asset requirements. The events of March 2020 show that investors, particularly institutional investors, are incredibly information sensitive and news driven. As weekly liquid asset levels dropped closer to 30% (the threshold at which a board could impose a liquidity fee or redemption gate), institutional investors quickly reacted to this information and increased their redemption activity. Many of our members have expressed concern that it is likely that institutional investors will react to other types of information that may trigger countercyclical requirements and such triggers may therefore increase redemption behaviour in a similar manner as was seen in March 2020.

As mentioned above, SIFMA AMG is supportive of other types of measures that could be imposed if a fund’s level of weekly liquid assets decreases below a specified level in a manner that does not motivate increased redemption behaviour (for example requiring additional board reporting). SIFMA AMG cautions against imposing requirements that would add undue burden to a MMF and its adviser during a time of stress. Rather, we are supportive of maintaining ability of the board to assess the situation and act in the best interests of the fund investors.

<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>

SIFMA AMG strongly opposes a requirement for all MMFs (including CNAV and LVNAV funds) to float their net asset value because such a policy measure does not address the contributors to stresses in the short-term funding markets in March 2020, does not improve the resilience or functioning of the short-term funding markets, and would not decrease the likelihood that official sector intervention is needed to address a run on a fund.

During the market stress in March 2020, the MMFs that saw the heaviest outflows included VNAVs (which are required to float their net asset values). Despite the requirement for VNAVs to float their net asset values, there is no evidence that floating their net asset value impacted investor redemption behaviour in March 2020. Rather, investor redemption behaviour was driven by liquidity concerns as opposed to concerns over a MMF’s net asset value. Many of our members view imposing a floating net asset value to more classes of MMFs as (1) not addressing the types of MMFs that saw the heaviest outflows in March 2020, (2) imposing a requirement that has proven unsuccessful in slowing redemptions of other types of MMFs (i.e. VNAVs), and (3) eliminating a vehicle that continues to provide a valuable investment proposition for investors, and an important source of funding for banks and their activities that support the real economy.

At the same time, it is unlikely that the entire investor base would be prepared to move to VNAV structures (for example due to restrictions in their investment policy), which could negatively impact the size of the short-term funding market.

<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>

SIFMA AMG believes that the prohibition on sponsor support should remain and therefore we do not agree with the proposition to amend Article 35 of the MMFR in order to allow sponsor support in certain circumstances. However, we would welcome some clarification on the scope of this prohibition.

Our members have raised a number of concerns regarding sponsor support, which are broadly in line with the issues identified in the Report. In particular, we believe that sponsor support may give the impression that MMFs are somehow “guaranteed” based on fund sponsor involvement, therefore creating moral hazard, especially in times of crisis. In addition, sponsor support could in fact result in additional capital requirements for banks, which would in turn make the product prohibitive.

That being said, we would welcome some clarification regarding the scope of Article 35 of the MMFR and in particular to specify what type of third party involvement does not actually qualify as ‘sponsor support’, within the meaning of the MMFR. For example, SIFMA AMG believes that ordinary commercial transactions entered into at arm’s length terms and in the normal course of business do not constitute ‘sponsor support’ and should therefore be permitted. We agree with ESMA’s previously stated position on this point and in particular that:

(i) for the purposes of examining whether a third party provides the external support, transactions with third parties relating to the assets of the MMF are not purchased at an inflated price where they are executed at arm’s length conditions; and

(ii) an indication of the direct or indirect objective of which is to maintain the liquidity profile and the NAV per unit or share of the MMF is where third parties execute transactions solely with the MMFs to which they are affiliated.

<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>

SIFMA AMG does not agree with the need to introduce regulatory requirements for MMFs ratings and we do not believe that this measure would address the perceived vulnerabilities.

Our members’ view is that MMF ratings did not have a significant bearing on the events in March 2020, neither for managers nor investors, and were not a significant factor in incentivising investor behaviour. The March 2020 liquidity crisis was irrespective of the credit quality (or credit rating) of the underlying securities. The main issue was liquidity and in the majority of cases redemptions were not related to a potential downgrade. This is further supported by the fact that standard VNAV MMFs, which are not rated per the various MMF criteria, saw material redemption pressure. So the issues that arose in March 2020 were agnostic to ratings.

MMF ratings are an accepted quality control tool for investors that assesses the capacity of the MMF to preserve capital, to provide diversification, and manage liquidity. They serve investors as a second set of eyes to assess the details of a MMF and therefore provide further assurance and confidence. They also benefit MMF investors as the credit rating agencies serve an objective role in assessing MMFs. In addition, MMF ratings actually enhance the resiliency of MMFs, as the criteria used by credit rating agencies are in line with and support the MMFR.

For the above reasons, SIFMA AMG is of the view that ratings operate well in the MMF market and the requirements applicable to them should not be amended.

<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>

SIFMA AMG believes that overall the MMF sector demonstrated resilience in the March 2020 crisis. Our members’ view is that additional stress test requirements are not required and they would not necessarily mitigate perceived vulnerabilities. Introducing additional reporting requirements would not necessarily help predict future crises, particularly where the events are caused by totally external factors or “black swan” events like the Covid-19 health crisis and are not related to the internal functioning or idiosyncrasies of the MMF market.

Therefore, we do not agree with the need to amend the requirements on stress tests included in the Article 28 of the MMFR. With regards to the two specific proposals contained in the Report, we note that:

* *Reporting directly to ESMA*: We would support ESMA having readily-available access to the relevant data provided by market participants to National Competent Authorities (**NCAs**) under Article 28 of the MMFR, and we agree with the need for better coordination between ESMA and the NCAs in this regard. However, this information should come from NCAs, rather than market participants directly. We do not consider that introducing additional reporting requirements (and the accompanying administrative burden) on market participants where there are other effective supervisory channels would be warranted.
* *Corrective measures*: We do not agree with the introduction of prescriptive requirements regarding corrective measures. MMF managers are much closer to the market and generally tend to react fast by positioning their funds defensively in light of developing market stresses. So MMF managers should have the flexibility to take the steps the deem necessary in that regard, acting in the best interests of the MMF and its investors.

<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>

SIFMA AMG entirely supports the current reporting requirements, but does not agree with the assessment that there is a need to review the reporting requirements under MMFR. Our members are generally of the view that MMFs are already extremely transparent in normal times and in periods of stress. Also, in practice, in times of crisis MMF managers are often in regular dialogue with NCAs and they are requesting further information on an ad hoc basis where this is required. In our view, this is a more flexible and efficient way to address any issues, rather than introducing further “tick-the-box” requirements. However, we do support further transparency in terms of the NCAs sharing such information with ESMA, but not market participants dealing directly with ESMA in these circumstances.

<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>

While we appreciate that certain reporting requirements may assist regulatory authorities in monitoring systemic risk more generally, we consider that in this particular case the disclosure of main categories of investors to authorities would not achieve the desired effect, as client behaviour can be very inconsistent, especially in times of stress. The main driving factor of investor behaviour in March 2020 was the link between regulatory thresholds and fees/gates which led investors to react in a coordinated fashion. Therefore, we do not support this proposition on the basis that it would introduce additional administrative burdens, when managers should be focusing on the management and operations of the MMF, without necessarily achieving the intended result.

<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>

SIFMA AMG strongly opposes bank-like requirements for MMFs, such as putting in place a LEF. Policy measures that involve pooling liquidity resources to be shared by all members, such as the LEF policy measure, present an unfair result to MMFs that invest in safer assets or manage their portfolios more conservatively and are therefore less likely to have a need to access the LEF. In addition, the proposal could potentially encourage excessive risk-taking by MMFs and create a form of moral hazard, if market participants expect a ‘safety net’ in times of crises. It would also likely have very little impact in a true market event and therefore it would not necessarily address the perceived vulnerabilities.

Moreover, setting up a LEF would also be prohibitively expensive for the industry, given that the margins in the short-term funding market are very thin. So the introduction of an LEF would affect the economic viability of MMFs and, ultimately, impact investors as they would likely bear the costs of such change.

In addition, LEFs present significant issues with respect to shareholder transparency if the LEF is running out of capacity. Disclosing that the LEF is running out of capacity would risk a run by causing investor alarm. The impact would likely be similar to how redemption behaviour increased when a fund’s level of weekly liquid assets decreased closer to 30%. Rather than acting as a safety net and preventing a run, this could produce the unintended consequence of triggering investor fear and therefore a run. Not disclosing that the LEF is running out of capacity, however, would seemingly go against the transparency generally provided regulatory requirements.

Other potential pitfalls include banking law issues, access to the discount window by the LEF, and issues with building adequate capacity.

For the above reasons, SIFMA AMG disagrees in principle with the proposal to create a LEF, so we have not provided further comments on its potential size or structure.

<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>

While we do not consider that wholesale changes would be necessary, we would welcome some clarity around the distinction between an MMF and a short-term bond fund.

Article 6 refers to the designation “money market fund” or “MMF”. We agree with the position that “…in case of any future potential systemic crisis, it should be clear which type of funds are captured by the requirements of the MMF Regulation” (paragraph 187 of the Report).

In our view, further clarification may be warranted given the MMFR currently covers two types of MMFs, short term and standard, that have allowances for significantly different risk profiles. Outside Europe, the designation of MMF is singularly applied to funds that adhere to rules similar to those under the MMFR for short term MMFs. Standard MMFs are categorised as ultra-short bond funds. It would be helpful to understand ESMA’s position regarding this distinction.

<ESMA\_QUESTION\_MMFR\_13>