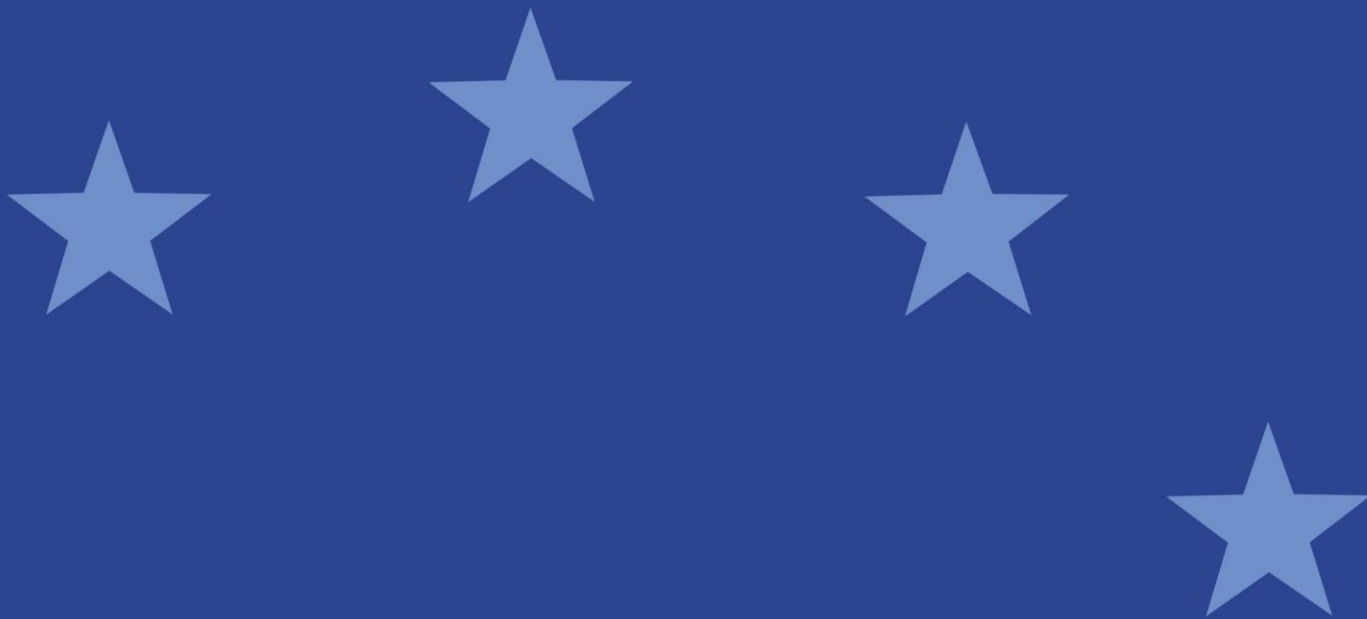


## **Response form for the Consultation Paper on the EU Money Market Fund Regulation – legislative review**



## 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 30<sup>th</sup> 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](#)'.

### **Who should read this paper?**

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

## General information about respondent

Name of the company / organisation	Fitch Ratings
Activity	Other
Are you representing an association?	<input type="checkbox"/>
Country/Region	International

## Introduction

***Please make your introductory comments below, if any:***

<ESMA\_COMMENT\_MMFR\_1>

Fitch Ratings ("Fitch") appreciates the opportunity to review and comment on the Consultation Paper on the EU Money Market Fund Regulation – legislative review ("Consultation Paper"). We set forth below our observations and suggestions with respect to the proposals; we have only responded with respect to those elements about which we have comments.

Fitch's comments aim to ensure that if it is determined that Money Market Fund ("MMF") ratings should be subject to the regulatory framework used for credit ratings (the CRA Regulation), this would be implemented in a manner which addresses the specific characteristics of MMF ratings.

Fitch would also ask ESMA to provide sufficient time for CRAs to implement any changes that may be required should MMF ratings become subject to the CRA Regulation at a future date.

<ESMA\_COMMENT\_MMFR\_1>

**Q1 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>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_MMFR\_1>

**Q2 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>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_MMFR\_2>

**Q3 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>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_MMFR\_3>

**Q4 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>  
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<ESMA\_QUESTION\_MMFR\_4>

**Q5 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>  
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<ESMA\_QUESTION\_MMFR\_5>

**Q6 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>  
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<ESMA\_QUESTION\_MMFR\_6>

**Q7 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>  
<ESMA\_QUESTION\_MMFR\_7>

**Q8 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>

Although Fitch does not believe that it is necessary to regulate MMF ratings, Fitch also does not object to the possible inclusion of MMF ratings under the existing regulatory requirements for credit ratings (CRA Regulation). However as detailed in paragraph 50 of this Consultation Paper, "money market fund ratings are different from credit ratings: they do not assess credit risk but rather the ability of MMF to preserve capital and maintain liquidity."

Indeed, Fitch's Rating Definitions define MMF ratings as follows:

"International Money Market Fund Ratings (assigned to money market funds and other cash management products) are an opinion on a fund's capacity to fulfil its investment objectives of providing ready liquidity and preserving principal. Money market fund ratings are not credit ratings. In the event of negative interest rates, Fitch considers principal to be preserved provided that the return to an investor is in line with the return on a relevant short-term money market interest rate benchmark. A fund's capacity to preserve principal will be evaluated relative to relevant short-term money market interest rate benchmark in the currency in which it invests."

As MMF ratings are not credit ratings (and thus do not address the relative likelihood of default), Fitch notes that some of the provisions (or parts thereof) of the CRA Regulation would not be applicable. Fitch therefore suggests that ESMA keeps this in mind if it considers extending the scope of the CRA Regulation to include MMF ratings. Some example provisions are included below:

Annex I(D)(I)(2) (c) & Paragraph 2

#### Annex I(D)(I)(2)(c)

A credit rating agency shall ensure that at least:

(c) the meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained;

#### Paragraph 2

When publishing credit ratings or rating outlooks, credit rating agencies shall include a reference to the historical default rates published by ESMA in a central repository in accordance with Article 11(2), together with an explanatory statement of the meaning of those default rates.

#### Annex I (E) (II) 1

A credit rating agency shall periodically disclose the following information:

1. every six months, data about the historical default rates of its rating categories, distinguishing between the main geographical areas of the issuers and whether the default rates of these categories have changed over time

Fitch notes that paragraph 146 of the Consultation Paper appears to suggest that some form of regulation may be used to determine certain elements to be included in rating methodologies, specifically the use of liquidity management tools in relation to MMF rating levels. Fitch would draw ESMA's attention to Article 23 of the CRA Regulation relating to non-interference with the content of ratings or methodologies, which Fitch considers should apply equally to CRAs that issue MMF ratings. Article 23 states:

'In carrying out their duties under this Regulation, ESMA, the Commission or any public authorities of a Member State shall not interfere with the content of credit ratings or methodologies.'

Fitch considers that it is equally important for MMF ratings as well as credit ratings to be independent and free from any interference or conflict.

In addition, ESMA's proposal could result in decreased transparency for investors. In our experience, investors value the independent assessment of an external third party that is provided by a MMF rating. MMF investors use MMF ratings as one tool to help them assess whether a given MMF is expected to provide them with a given level of principal stability and liquidity with respect to their invested cash. As MMFs are often treated as highest standard investments for cash, a AAA(mmf) rating is one tool to assess the liquidity and stability of that investment. As MMF ratings are widespread, Fitch would recommend ESMA seek the views of investors on how they use MMF ratings.

If the perceived ability of a MMF to preserve principal or provide liquidity changes, then it is important that this information is conveyed to investors through the MMF rating. Specifically, if a MMF experiences significant redemptions, resulting in reduced liquidity, then its actual and prospective ability to meet further redemption requests is reduced. Fitch's Money Market Fund Rating Criteria have processes in-place to understand, assess the severity of and respond in an orderly and appropriate manner to potentially rating-relevant events. When Fitch detects a potentially rating relevant development, it will typically contact the fund manager to verify and understand the development. In some cases, in particular where the fund manager presents a credible and near-term achievable remedial plan to address such a development then Fitch may not immediately downgrade, particularly where risk to investors is either less material or less immediate. If Fitch chooses to change a MMF rating in response to material adverse developments, this would provide important information to investors. This rating change would indicate that the MMF in question's ability to provide liquidity is materially different (reduced) when compared with MMFs with higher liquidity levels and hence a greater ability to meet potential current and future redemption requests. In this scenario, the MMF rating does not constrain the MMF's flexibility, it simply reflects the reality of a change to the MMF's ability to provide liquidity.

One additional comment with respect to paragraph 148: MMFs who solicit credit ratings need only solicit such ratings from an EU-registered CRA if those ratings are to be used for regulatory purposes.  
<ESMA\_QUESTION\_MMFR\_8>

**Q9 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>  
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**Q10 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>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_MMFR\_10>

**Q11 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>  
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<ESMA\_QUESTION\_MMFR\_11>

**Q12 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>  
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<ESMA\_QUESTION\_MMFR\_12>

**Q13 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>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_MMFR\_13>