JANUARY 2022

CONSULTATION AFG'S RESPONSE

AFG response

ESMA consultation

Report on highly liquid financial instruments with regards to the investment policy of central counterparties (EMIR Article 85(3a(e)))

AFG

Ensemble, s'investir pour demain

The AFG federates the asset management industry for 60 years, serving investors and the economy. It is the collective voice of its members, the asset management companies, whether they are entrepreneurs or subsidiaries of banking or insurance groups, French or foreigners. In France, the asset management industry comprises 680 management companies, with €4355 billion under management and 85,000 jobs, including 26,000 jobs in management companies.

The AFG commits to the growth of the asset management industry, brings out solutions that benefit all players in its ecosystem and makes the industry shine and develop in France, Europe and beyond, in the interests of all. The AFG is fully invested to the future.

REPORT ON HIGHLY LIQUID FINANCIAL INSTRUMENTS WITH REGARDS TO THE INVESTMENT POLICY OF CENTRAL COUNTERPARTIES (EMIR ARTICLE 85(3A(E)))

AFG would like to thank ESMA for the Consultation Paper / Report on highly liquid financial instruments with regards to the investment policy of central counterparties (EMIR Article 85(3a(e))).

AFG would like to comment on the inclusion of MMFs authorised in accordance with the EU Regulation on money market funds (EU) 2017/1131 ("MMFR") in the list of financial instruments for CCP investments.

AFG agrees that this is a valid question with regards to the diversification of instruments available for CCP investment.

AFG believes that MMFs have key features that could qualify them as eligible instruments. MMFs are highly regulated, well-diversified, short term vehicles that invest in short term money markets (they are also presumed as eligible cash equivalent vehicles for their investors). They also represent the safest products in the asset management space. They are highly liquid and stable investment vehicles in normal markets. Their liquidity depends on the underlying money markets own liquidity, as they are not guaranteed products, but investment funds that pass market opportunities and risks onto their investors. As mentioned in the report, most MMF regulations are under review for possible amendments to existing rules, as a consequence of the March 2020 turmoil. Though we strongly believe that the liquidity issues that some non-public-invested MMFs had then to address stemmed from money market malfunctioning, it is a fact that the reforming process initiated by both International and local authorities may justify a delay when assessing MMFs' inclusion in CCPs' investment universe.

In addition, and prior to any decision on this matter, AFG believes that further interactions with CCPs is important in order to better understand their needs and liquidity cyclicity, the way they diversify their liquidity sources and how they could implement a complementary investment source in MMFs and with which criteria (concentration ratio, investment cycles, divestment procedures, etc). Their proportional use of different sources of liquidity is important to understand in order to avoid risk concentration and ultimately forced selling concentrated on one sector or another in times of crisis. In addition, it is worth mentioning that Europe does not benefit from a unified government short term bonds market and there is no € denominated public debt MMF market, as reflected in the long-lasting limited level of PDCNAV MMFs' AUM. The possible inclusion of MMFs should take into account the specificities of the European money markets and MMFs, the availability and link between different instruments that can offer CCPs an enhanced diversification of their liquidity sources.

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