FSB - Policy Proposals to Enhance Money Market Fund Resilience

BNP PARIBAS Response to the consultative report

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BNP PARIBAS

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Introductory comments

BNP Paribas welcomes the opportunity to comment the FSB's consultation on Policy Proposals to Enhance Money Market Fund Resilience.

We will mainly focus in our response to this consultation from a Euro-denominated VNAV MMF perspective, as almost all our funds are French MMFs of VNAV type. BNP Paribas Asset Management (the asset management division of the BNP Paribas Group) has € 72 bn of MMFs under management as of 31 December 2020 ith the following breakdown:

- € 46 bn in French MMFs all of VNAV type,
- € 26 bn in Luxembourg MMFs of which GBP 2.2 bn and USD 1.5 bn for the LVNAV MMF type.

During the COVID crisis, French Euro-denominated VNAV MMFs managed the outflows and proved resilient despite important redemptions, especially in March 2020 (-52.4 bn euros). This is clearly explained in the French regulator AMF's 2020 Markets and Risk Outlook. This report also indicates that despite the significant net outflows in March 2020, inflows resumed as soon as May 2020. Overall, over the first 8 months of 2020, inflows amounted to +48.6 bn euros. Another important fact is that, unlike the 2008 episode, no complaint was expressed with regard to the composition of the portfolios of French MMFs, especially in terms of the quality of assets. Indeed, French VNAV MMFs have demonstrated that they are safe and resilient in their construction and composition.

As complementary information, French VNAV MMFs are subscribed mainly by institutional investors. They are used by investors as short-term investment vehicles that offer returns in line with money market rates by placing monies in short-term assets. They constitute an appreciated alternative for cash management allowing investors to diversify their counterparty risk. They are also easy to use and offer same day liquidity. At quarter end for instance, their outflows are generally important and are dealt in anticipation in a business-as-usual manner by asset managers. Indeed, MMFs have cyclical and anticipated redemptions (which might amount to as much as 20%) that are managed without difficulty. An efficient KYC permits discussion with the investors so as to anticipate redemptions for which the manager is preparing the necessary liquidity in advance. During the crisis, the need for cash expressed by some of them, especially corporates, amounted to high levels of redemptions from MMFs. As they are most liquid investment funds, they were naturally used in priority compared with other types of assets, even if the redemption was high almost in all asset classes.

We consider that all these features should be properly taken into consideration when assessing the need of policy options to enhance MMF resilience. In our view, the MMF Regulation is the EU is well calibrated and only targeted and limited changes may be envisaged. In this review, it is also quite important to have clear view of the distinct impacts of the 2020 crisis on the various MMFS types. For instance, EU VNAV MMFs are denominated only in euro whereas EU CNAV/LVNAV MMFs are exclusively denominated in USD and GBP. During the 2020 crisis, USD-denominated MMFs benefited from the intervention of the FED as soon as mid-March and then recovered quite rapidly whereas intervention of the ECB happened in early April. It is important to have in mind such parameters when assessing the resilience of one type of MMF and not concluding that speed of recovery is only dependent on the specificities of MMF type.

Therefore it is crucial to avoid adoption of "one-size-fits-all approach" which could make sense for a given type of MMFs but would be totally unsuitable otherwise, especially for the very types of funds that proved to be resilient during the pandemic.

Overall

1. What are the key vulnerabilities that MMF reforms should address? What characteristics and functions of the MMFs in your jurisdiction should be the focal point for reforms?

In our view, MMFs did not contribute to the financial stress that followed the eruption of the pandemic crisis: a symptom rather than a cause *as* they were involved in the general disruption observed in the financial markets. Initial difficulties were due to the “dash for cash” resulting from the need of many clients – corporates and institutional ones - to access to fresh cash due to the sudden interruption of the economic activities. As mentioned above, they were redeemed in priority as they are seen as some of most liquid instruments and as a consequence they recorded significant outflows. In a second stage, MMFs encountered some difficulties for (1) selling some of their assets as many counterparties were not in capacity to extend their balance sheets to absorb the assets for sale in absence of any bid in the secondary market and (2) in a later stage for some MMFs rolling over their investment in new CDs / CPs.

In brief, the main difficulties encountered by French MMFs were due to distressed selling pressures in a context of both unprecedented outflow on the liabilities side and building of precautionary liquidity provisions on the asset side. As a consequence, CP and CD primary market froze in a matter of days while intermediation capacity of dealers in an elusive secondary market was most challenged given the absence of parties to intermediate with.

In more details:

- When the MMFs attempted to have short term papers buy back by banks in what was a “one-way market”, the latter were constrained by a limited storing capacity on their own balance sheets in view of their own credit limits in terms of both concentration and absolute levels, all the more so as some liquidity lines were drawn from the banks by CP issuers at the time. In addition, the crisis happened at the end of a quarter when constraints for banks on ratios may be more demanding.
- BNP Paribas Asset Management observed that the availability of some dealer banks to act as ultimate bidders[1]- often by buying back CP and CD from MMFs – was limited by rising balance sheet constraints. This did not apply to BNP Paribas which used its balance sheet to provide some bids for both external issuers (CD included) along with its own paper (up to a certain volume).
- Some operational difficulties were also observed with counterparties due to the sudden widespread introduction of a mandatory “work from home” set up. It took a minimum of time before brokers could be operational again. When MMFs wanted to invest again in Short Term money markets, there was no pricing and these investments could not be performed. The lack of activity observed in the secondary markets of corporate Neu CP in normal times was exacerbated during the crisis period and resulted in difficulties to get the right pricing.

In the end, French (and EU) VNAV MMFs have globally demonstrated their resilience during the March-April 2020 pandemic crisis. Despite significant volumes of outflows registered during this period, there was no suspension of MMFs. In addition, the crisis period did not linger and was well contained as inflows restarted from May 2020 and pre-crisis levels were recovered by end of 2020. Measures taken along the ones adopted in the aftermath of the 2008 crisis have allowed to mitigate significantly the effects of disruptions observed in the markets. Liquidity buffers have provided sufficient liquid assets to be sold in a short timeframe to respond to the significant volumes of redemptions. The existing flexibility has been helpful to avoid counter-cyclical effects. As a result we are of the view that no significant

[1] market making would imply symmetrical trading interest from different counterparties

reform of the MMF regulatory framework (at the least in the EU) is required. Only targeted measures for which all impacts have been properly assessed may be envisaged.

Against this background, we consider that other levers of actions should also be investigated to address specific issues that emerged during the pandemic crisis and that cannot be solved through the revision of MMF regulation itself. We believe in particular that the functioning and resiliency of underlying markets (such as CP and CD markets) should be further analysed to assess if some measures should be envisaged to enhance this functioning, having in mind that, given their short term maturities, the "buy and hold" nature of these markets and the liquidity provided by the banks to the issuers upon the drawing of the credit facilities under such circumstances.

2. What policy options would be most effective in enhancing the resilience of MMFs, both within individual jurisdictions and globally, and in minimising the need for extraordinary official sector interventions in the future?

As mentioned above, we consider that there is no need for significant changes of the current MMF regulatory framework for EU MMFs. Only targeted measures may be envisaged and should be adapted to the various types of MMFs. Being said differently, no one-size-fits-all approach should be adopted for MMFs.

We have the following high-level comments on the policy options presented in the report for EU MMFs and more specifically French VNAV MMFs. More detailed input on these policy options will be provided in response to Q.9 and Q.10:

- Swing pricing is not adapted to the features of the MMFs (due to the practice of same-day settlement), we are of the view that a liquidity fee / exit fee mechanism would be more relevant.
- Existing liquidity buffers as determined under the Money Market Fund Regulation (MMFR) are adequately calibrated and do not need to be increased, especially for the particular case of "short term MMFs". During the pandemic crisis, existing thresholds were breached in very limited cases and MMFs came back to normal situation very promptly (i.e. on the same day) without negative effects on end-investors. The current countercyclical features of these buffers for VNAV MMFs (i.e. these buffers can be used in case of significant redemptions) should also be maintained. This rule has proven to be quite effective and does not require any amendment. We believe that there would be merit in assessing if extension to other types of MMFs would be a positive option.
- Another option we would recommend for consideration is adding, in case of VNAV standard MMFs, a layer of government debt to the existing buffers (which would be investment grade public debts in conformity with MMFR requirements). While aware of further need of investigation on right level of calibration and selection, we think that this option would allow to have a pool of liquid assets that could be liquidated immediately in case of high outflows. An alternative option to increasing liquidity buffers that could be envisaged would be to add a layer of government securities that would be immediately available for outright selling in case of stressed market conditions.

In addition to these comments, we would like to clearly indicate that there are some measures we are fully opposed to:

- Capital buffers and the variant option that would consist in set up a Liquidity Exchange Facility (LEF): such measures would significantly reduce the performance of MMFs and may reduce their benefits for end-investors. The LEF solution would be quite complex to develop both from an operational and business perspective. It would take several years before it is effectively activated and would require the participation of numerous players to reach the right level of funding. In the end it might reveal to be quite costly for the industry with limited benefits.

- Minimum Balance at Risk: even if this option could be seen as an efficient way to reduce the first mover advantage, it would probably not be efficient in case of significant volumes of redemptions as stated in the report. In addition the operational complexity associated to this option is a strong impediment to effective positive effects.

As a very last comment, we agree that intervention by central banks should not be seen as explicit in case of highly stressed market conditions to restore the right functioning of financial markets and investor confidence. At the same time, it does not seem reasonable to rule out this type of intervention in the future. In our view, intervention of central banks as a last resort solution is not to be seen as beneficial to MMFs only as it plays a significant role for the markets as a whole, notably to restore confidence of market participants and for the recovery of the financial system as a whole. In our view the US Federal Reserve's Own Money Market Mutual Fund Liquidity Facility (MMLF) was all the more relevant that (1) the March 2020 'dash for cash' started on the US dollar market and (2) the stakes for the US MMF market was magnified by the large print of "constant net asset value" (CNAV) funds, the assets of which are all in public sector (US Treasury for the most part). As a last comment on this part, we would like to refer to the recently Bank of England Financial Stability Report (published on 13 july 2021) and which indicates that: "The Bank states that it is first and foremost for market participants to manage the liquidity risks they face. However, it is not realistic or efficient to expect them to self-insure against every conceivable shock or stress. It is therefore also important to examine whether central banks have the appropriate facilities to provide liquidity to the whole of the financial system in stress in order to support market functioning without creating moral hazard – or whether any further tools are needed."

Thus, it is important not to have a single approach for all types of MMFs. Distinction must be made between different MMFs categories and jurisdictions, first in the analysis of trends observed during the crisis and second in the policy options that could be envisaged in the future.

3. How can the use of MMFs by investors for cash management purposes be reconciled with liquidity strains in underlying markets during times of stress?

It is first essential to make fully clear to end-investors that MMFs are not risk-free investment products and that risks embedded in MMFs (in particular market risk, credit risk and liquidity risk) are to be supported in the end by investors: MMF value risk can be a function of both credit and liquidity premia. All relative information must be clearly disclosed in the relevant reporting, with detailed information on the nature and features of these risks.

In addition, EU VNAV MMFs have two main characteristics which de facto contribute to this reconciliation: first the NAV variability which is aligned with the one of money markets and which is a major element to address the liquidity strains in underlying markets during time of stress. Second French/EU VNAV MMFs are investment funds with no explicit or implicit guarantee attached. The European Money Market Fund Regulation (MMFR) clarified that risks and opportunities lie with investors, their investment constitutes 100% of committed capital.

Beyond the transparency issue and NAV variability, we see three other ways to address this topic:

- Use of liquidity management tools can help to deal with high volumes of outflows, provided that they are adapted to the specific nature of MMFs. Swing pricing, even if used in a beneficial way by several investment funds during the Covid-19 crisis, are not workable in the case of MMFs, mainly due to the "proxy cash" nature of MMFs for which subscription and redemption orders are executed with the NAV of the same date (also known as "same-day settlement). We consider that it would be more relevant to put in place an Anti-Dilution Levy (ADL) – with a predefined percentage - or a liquidity/redemption fee (an action on redeemers is sought), provided that operational processes are

effective. In order to work a solution based on the principle of the best interest of all investors of a fund, this defined % should be in relation to the probable liquidity cost that might be incurred on money markets and not a punitive figure. Indeed, this would mean a maximum of 20 to 50bp. This ADL or redemption fee would be activated only under certain market conditions, (i.e. liquidity shortage/crisis and/or for redemptions above a certain threshold that may impact fund's liquidity) and be based on the decision of the local regulator and a group of experts in a kind of collegial manner (i.e. this decision should not be only in the manager's hands due to the quite negative effects that such a decision would have on this manager but also in terms of contagion risks). Under this assumption, investors that need cash desperately can access their monies with a fair price with regards to the markets conditions and those that can afford to wait for markets to go back to normal do not pay for the redeemers.

- We also believe that reporting more detailed information to the regulators on investors in MMFs would be of real value. Identification of the main broad categories of investors (treasurers, corporates, funds, insurance, etc...) and reporting of this breakdown to authorities on a quarterly basis are appropriate ways to deal with investor behaviour. As manager of VNAV MMFs, we have this detailed knowledge of our investors and are in close relation with them. This knowledge allows us to anticipate any major move in our portfolio and is a major tool to take adapted measures. On the frequency to be used for this type of reporting, we are not sure that daily reporting is required in normal business conditions. Quarterly frequency (as currently applied under MMFR) should be sufficient to deliver the right level of information to regulators.

- We are also in favour of improving the information reported on the asset side. The crisis revealed that transparency of information on short-term funding markets was not always optimal and that lack of information on pricing and volumes could impede the right functioning of these markets and consequently had negative impact on MMFs. Additional transparency on Banque de France Negociable European Commercial Paper (NEU CP) markets has been beneficial and could be further enhanced. Areas of improvement should be investigated in liaison with the issuers and banking communities. Similarly, some efforts should be engaged to promote the development of a regulated Euro CP market with high level of transparency, by considering how the Neu CP market has been developed in the French market.

  All these initiatives should contribute to increase the liquidity in these markets and strengthen the confidence of investors in these products.

Forms, functions and roles of MMFs

4. Does the report accurately describe the ways in which MMFs are structured, their functions for investors and borrowers, and their role in short-term funding markets across jurisdictions? Are there other aspects that the report has not considered?

We agree with the description made of the various types of MMFs across the world. It clearly demonstrates that there are different types of MMFs that cannot be regulated in the strictly same way. We also consider that description of roles and functions of MMFs depending of jurisdictions is very well reflected in the report.

In all cases, the report clearly demonstrates that MMFs are highly interconnected with other participants in the market and cannot be considered in isolation. Adoption of some measures that could seem as relevant to increase MMF resilience may have some unintended consequences on other components of the market. Especially in terms of performance and costs.

This also means that looking at MMFs in isolation is not sufficient to anticipate new disruptive situations in the future. It is not sure that more restriction on MMFs would solve issues in underlying markets and

probably intervention by central banks would still be needed. Central Banks are in their legitimate role to seek to unlock market halt and restore confidence. As a result we believe that assessing whether the review of current functioning of underlying funding markets can be enhanced may be of value through a more holistic review of all components of the ecosystem.

Another option that could be of value for the whole ecosystem would be that short term papers that respect a set of minimum criteria (e.g. on maturity, credit quality) could be taken as eligible assets for central banks' repurchase programs. The objective would be to facilitate the access to central banks' repurchase programs either through reinforcing the effectiveness of the circuit going through banking institutions (current situation) or even get direct access. During crisis periods, eligibility criteria should be enlarged and made more flexible on a temporary basis to increase the scope of papers accepted as collateral.

5. Does the report accurately describe potential MMF substitutes from the perspective of both investors and borrowers? To what extent do these substitutes differ for public debt and non-public debt MMFs? Are there other issues to consider?

The report makes a fair description of existing substitutes and indicates that there are some differences from one jurisdiction to another.

In addition, we have two main comments on this section:
- On the possibility for non-public debt MMFs to use public debt MMFs as a substitute: this option is relevant for the US and it was largely observed during the 2020 crisis with the flight to quality from VNAV Prime MMFs to CNAV Government MMFs. In the EU, this type of arbitrage may not happen as there is no such alternative, most institutional investors used bank deposits as substitute when redeeming from VNAV MMFs.
- Another substitute used in the EU during the crisis was the move to triple A rated MMFs. As an illustration of this trend, we have seen with our Short Term VNAV Euro MMF domiciled in Luxembourg (BNP Paribas InstiCash – AAA rated) the very positive effect of MMF ratings. This fund has clearly benefited from its high rating with increase of inflows during the crisis period. Such ratings allow to disclose the high quality of these types of funds and ensure high level of protection for end-investors. In our view, the current requirements of the MMFR should be maintained and we do not see any need to change ~~of~~ these provisions.

In the end, it appears that, even if some substitutes are available and may vary from one jurisdiction to another, MMFs remain the short term investment product which provides the best return for end-investors and best source of diversification. Any substitute will be probably more costly for end-investors, less practical and flexible in terms of concrete use, and could create some concentration risk resulting in potential systemic risk.

If MMFs were to close because of too strict regulation, this would raise several types of difficulties for the functioning of the financial system as a whole:
- It would imply less diversification of funding sources away from banks, with increased reliance on comparatively more expensive bank credit. In addition this would not be consistent with the Capital Market Union (CMU) objective in the EU to reduce the proportion of funding by banking institutions.
- In addition, banks would not see this increasing short term funding as a positive development, as they already have significant pools of liquidity (with LCR highly above the regulatory thresholds) and providing this type of funding could translate into additional capital requirements.
- Lastly it is important to remind that new transparency and reporting requirements introduced by the MMFR in Europe provide supervisors with quite extensive and quality information on asset managers' MMFs, which would probably not be available if such funding were performed in another way.

Vulnerabilities in MMFs

6. Does the report appropriately describe the most important MMF vulnerabilities, based on experiences in 2008 and 2020? Are there other vulnerabilities to note in your jurisdiction?

See our response above to Q1. As mentioned previously in our response, it is important to have a holistic approach and not take MMFs in isolation. It is also essential to be aware of MMF main characteristics and their effective function in the whole ecosystem. Full transparency on the risks associated to their specific type (CNAV/VNAV) must be clearly disclosed to end-investors and it must be clearly stated that MMFs are not risk-free investment products.

More specifically on French VNAV MMFs, we consider that they have demonstrated their resilience during the 2020 crisis and that several of their features have contributed to this resilience, i.e. the NAV variability, the flexibility of liquidity ratios (in accordance with the MMFR) and the very good knowledge of their investors.

Policy proposals to enhance MMF resilience

7. Does the report appropriately categorise the main mechanisms to enhance MMF resilience? Are there other possible mechanisms to consider? Should these mechanisms apply to all types of MMFs?

We consider that the mechanisms presented in the report are quite comprehensive and cover all potential policy reforms. The classification proposed in the report is also a very positive way to analyse the different options.

As mentioned above, we are of the opinion that the existing regulatory framework for EU MMFs is well calibrated and does not require major changes. Some policy options presented in the report are not adapted in our view as they could have very counterproductive effects on the functions and roles of MMFs and could even endanger the maintenance of MMFs as a major liquidity tool for investors and borrowers. Please see our more detailed comments on these options in response to the following questions.

Another mechanism that should be taken in consideration is having more transparency on investors in MMFs as mentioned above in our response to Q.3. We believe that reporting more detailed information to the regulators on investors in MMFs would be of real value. This knowledge allows to anticipate any major move in MMF portfolio and is a major tool to take adapted measures.

8. Does the assessment framework cover all relevant aspects of the impact of MMF policy reforms on fund investors, managers/sponsors, and underlying markets? Are there other aspects to consider?

We welcome the quite comprehensive and open approach adopted in the report. It does not focus only on potential impact on MMFs, it provides a full picture of how one policy option could also affect other components of the whole ecosystem. This approach should help in the end to evacuate some options that could seem appropriate when taken in isolation and that would reveal quite negative when looking on their full impact.

One aspect on which the report could have been further developed is the intervention of authorities at local level. During the 2020 crisis, we observed some differences in the intervention of central banks in terms of timeline and scope of financial instruments benefiting from this intervention. We think that

lessons can also be learnt from these different types of actions by assessing how they addressed difficulties encountered in the markets. In any case, further coordination between public authorities could be positive. This type of approach should also help to assess the level of flexibility that is required to make sure that one specific option will fit with the local framework and usage of MMFs by the various stakeholders.

9. Are the representative policy options appropriate and sufficient to address MMF vulnerabilities? Which of these options (if any) have broad applicability across jurisdictions? Which of these options are most appropriate for public debt and non-public debt MMFs? Are there other policy options that should be included as representative options (in addition to or instead of the current ones)?

Please find below our comments by types of policy options referred to in the report.

Mechanisms to reduce the likehood of destabilising redemptions

Swing Pricing: Swing pricing, even if used in a beneficial way by several investment funds during the Covid-19 crisis, is not workable in the case of MMFs, mainly due to the same-day settlement possibility whereby subscription and redemption orders are executed as of same date NAV (also known as T+0 settlement). We consider that it would be more relevant to put in place an anti-dilution levy (ADL) – with a predefined percentage -or a liquidity/redemption fee (an action on redeemers is sought), provided that operational processes are effective. In order to work a solution based on the principle of the best interest of all investors of a fund, this defined percentage should be in relation to the probable liquidity cost that might be incurred on money markets and not a punitive figure. Indeed, this would mean a maximum of 20 to 50bp. This ADL or this redemption fee would be activate only under certain market conditions, (i.e. liquidity shortage/crisis and/or for redemptions above a certain threshold that may impact fund's liquidity) and be based on the decision of the local regulator and experts in a kind of collegial manner (i.e. this decision should not be only in the manager's hands due to the quite negative effects that such a decision would have on this manager but also in terms of contagion risks). Under this assumption, investors that need cash desperately can access their monies with a fair price with regards to the markets conditions and those that can afford to wait for markets to go back to normal do not pay for the redeemers.

Absorb losses

Minimum Balance at Risk: it is true that a minimum balance at risk (MBR) could materially reduce the first mover advantage from potential losses of a MMF. At the same time, the difficulties resulting from this option are also very well described in the report, notably when referring to the confusion or unease for end-investors and to the operational adjustments for MMF managers and intermediaries. The point on reducing the attractiveness for end-investors is also a major drawback that should prevail when assessing the appropriateness of this option. In the end, we believe that this option is not relevant.

Introduce capital buffers: imposing a capital buffer would significantly reduce the performance of MMFs and would be very costly, as clearly explained in the report, even if it would in theory improve the stability and resilience of STFMs. In the end, cons are more important that pros and could significantly reduce the attractiveness of MMFs for investors.

Reduce threshold effects: we agree that such thresholds would have counterproductive impact as they could motivate pre-emptive redemptions. So there is merit in further investigating on how decoupling regulatory thresholds from fees and gates. At the same time, would this option be retained, it should be assessed how in counterparty appropriate safeguards are in place for ensuring protection of end investors.

Removal of stable NAV: as we manage almost exclusively Euro-denominated VNAV type MMFs (as mentioned in the introduction), we are neutral on this specific point.

Mechanisms to mitigate the impact of large redemptions

Reduce liquidity transformation (by limiting eligible assets for MMFs and require them to invest a higher proportion of their assets in shorter dated and/or liquid instruments):

For VNAV MMFs, it must be first recalled that reforms adopted in the aftermath of the 2008 crisis have introduced strong provisions to address the liquidity transformation topic with imposition of Weighted Average Life (WAL) and Weighted Average Maturity (WAM) which have proven to be quite efficient. Second, as very well explained in the report, this option would be quite negative for issuers of CP and CD that may face some difficulties to find other investors than MMFs. Lastly it cannot be expected that an MMF is 100% liquid as otherwise it would be cash. What is most important in the end is transparency provided to end-investors on the assets of a given fund to make them aware of the level of risk associated with that fund and allow them to assess if this risk profile is consistent with their own expectations.

Whatever the type of MMFs, we are not in favour in imposing them to hold only public debt instruments. An alternative option we would recommend for consideration is adding, in case of VNAV standard MMFs, a layer of government debt to the existing buffers (which would be investment grade public debts in conformity with MMFR requirements). While aware of further need of investigation on right level of calibration and selection, we think that this option would allow to have a pool of liquid assets that could be liquidated immediately in case of high outflows.

Additional liquidation requirements and escalation procedures:

As mentioned in response to previous questions, we consider that one of the most relevant options is the consideration of liquidity management tools and more precisely the use of exit/redemption fees that should be triggered in a collegial manner by the local regulator and a group of experts (see our response for Q.9 for more details).

Another recommendation on this point is to introduce an additional layer of government issuance for VNAV standard MMFs that could be liquidated in a very short timeframe.

10. Does the summary assessment of each representative option adequately highlight the main resilience benefits, impact on MMFs and the overall financial system, and operational considerations? Are there any other (e.g. jurisdiction-specific) factors that could determine the effectiveness of these options?

As mentioned in response to Q.9, we consider that descriptions and assessments made on the various options very well reflect the pros and cons of each option and that they integrate all the components of the overall ecosystem. Operational aspects and impact on performance of MMFs are also very well integrated in the analysis presented in the report. This is important to have also these types of consequences in mind when determining what policy options may have added value for the whole ecosystem.

11. Is the description of variants and the comparison of their main similarities/differences vis-à-vis the representative options appropriate? Are there other variants to consider?

As for response for Q.9, please find below our comments for each type of options.

Mechanisms to reduce the likehood of destabilising redemptions

Swing pricing: as mentioned in response to Q.9, we are more in favour of an ADL – with a predefined percentage -or a liquidity/redemption fee. We are also of the view that this mechanism should be triggered on the decision of the local regulator and experts in a kind of collegial manner (i.e. this decision should not be only in the manager's hands due to the quite negative effects that such a decision would have on this manager but also in terms of contagion risks).

Absorb losses

Minimum Balance at Risk: no variant option is proposed in the report.

Introduce capital buffers: sponsors to provide financial support to their MMFs and Liquidity Exchange Bank – we are fully opposed to these 2 alternative options.

Currently use of internal and external sponsors to support MMFs is prohibited in the EU under Article 35 of the MMFR. We consider that this provision does not need to be amended, even if we note that there are diverging approaches today in the US and in the EU on this topic as the US legislation authorises this type of support.

The main reason why we consider that support by the parent company or any other form of external support is not relevant is that central banks should intervene when funding markets do not function any more. Indeed this type of intervention is not to relieve MMFs themselves but the underlying markets in which they invest. Would central banks have not intervened during the 2020 crisis, it would have quite damaging impact mainly on these markets and would have seriously affected the functioning of the whole ecosystem.

Lastly, we are not in favor of an external support framework through the set-up of liquidity exchange bank or another third party mechanism with similar functions. This solution would be quite complex to develop from an operational and business perspective. It would take several years before it is effectively activated and would require the participation of numerous players to reach the right level of funding. In the end it might end up being quite costly for the industry with limited benefits.

Reduce threshold effects:

These variant options apply only to CNAV and LVNAV MMFs. So we do not have specific comments on our side

Removal of stable NAV: no variant option is proposed in the report.

Mechanisms to mitigate the impact of large redemptions

Reduce liquidity transformation:

We have the following comments on the various variants presented in the report.

- Hold public debt instruments only: this option would significantly reduce the range of MMFs available for end-investors and the financing opportunities for CP and CD issuers. This type of measure would be very detrimental for many stakeholders

- Liquidity based redemption deferrals (non-daily dealing or notice periods): we are strongly opposed to this option as it is contradictory with the "proxy cash" essence of MMFs, as opposed to financial investments, i.e. having access to immediate liquidity. Investors would for sure turn massively to banking deposits and lose benefits of diversification provided by MMFs.

Additional liquidation requirements and escalation procedures: no variant option is proposed in the report.

12. Are measures to enhance risk identification and monitoring by authorities and market participants appropriate complements to MMF policies? Which of these measures are likely to be most effective and why? Are there other measures to consider?

We agree that both stress testing and transparency are quite important tools to enhance the resilience of MMFs. They should play a key role in anticipating potential difficulties and make investors aware of the risks and opportunities linked to their investments.

At the same time, these new requirements have been introduced recently and it seems quite premature to envisage additional / amended requirements at this stage (at least in the EU with the MMFR).

On reporting frequency, it could be envisaged to increase this frequency in case of stressed market conditions with focus on a selected set of data. This is what was done during the previous crises with permanent dialogue between asset managers and their supervisors. We do not see the need to have a monthly frequency instead of quarterly. In time of normal conditions, this would not have real added value while it would represent significant amount of work for the industry players.

On stress testing, we have several comments:
- First stress tests requirements under the MMFR have entered into force quite recently and first reporting was to be published at the end of 2020. As a result it is quite difficult to make informed assessment on the need to amend them at this stage.
- However they have already demonstrated in our specific case that our internal risk management framework is well calibrated with strong safeguards in case of tensions in the market. Being said differently we have not identified need for major change in the way we monitor risks for our MMFs
- In addition, it is obvious that stress testing has limited value in case of extreme market conditions as those experienced during the March-April 2020 crisis. Other indicators as spread widening, increasing volatility and high volumes of outflows are much more relevant signs of need for intervention than additional and more uniform stress testing. We are not sure that envisaging a scenario where all MMFs face a shock at the same time would provide real added-value compared to the current framework in place for individual MMFs.

For all these reasons, we do not see the need to amend the requirements on stress tests as currently provided under the Article 28 of the EU MMFR.

On measures to improve the functioning of CP and CD markets: as indicated previously, other levers of actions should also be investigated to address specific issues that emerged during the pandemic

crisis and that cannot be solved through the revision of the MMFR itself. We believe in particular that the functioning and resiliency of underlying markets (such as CP and CD markets) should be further analysed to assess if some measures should be envisaged to enhance this functioning, having in mind that, given their short term maturities, the "buy and hold" nature of these markets and the liquidity provided by the banks to the issuers upon the drawing of facilities under such circumstances, the enhancement of the secondary market on these financial instruments would continue to rely mainly on the support provided by the Central banks through their dedicated purchase programs, in case of highly stressed market conditions.

On this last point, we would like to refer to the Basel Committee's report on "Early lessons from the Covid-19 pandemic on the Basel reforms" published on 6 July 2021 and which indicates that : "Overall, bank positions in government bond and repurchase agreement (repo) markets remained stable or rose in response to the rapid surge in client demand for liquidity at the onset of the crisis, though there is evidence that leverage ratio requirements may have reduced banks' incentives to mitigate the large imbalances that emerged in some markets. Several member jurisdictions temporarily exempted central bank reserves from the leverage ratio calculation, which eased banks' balance sheet constraints on their intermediation activity."

Considerations in selecting policies

13. Are the key considerations in the selection of policies to enhance MMF resilience appropriate? Are there other considerations that should be mentioned?

As commented in responses to previous questions, we consider that key considerations are appropriately taken into consideration all along the review of the various policy options. At the same time, we are of the view that:

- focus should not only be on MMFs as explained in responses to previous questions,
- the intervention by central banks, even if not be seen as implicit should not excluded from a general perspective.

14. Which options complement each other well and could potentially be combined? What are the most appropriate combinations to address MMF vulnerabilities in your jurisdiction? Which combinations are most effective for different MMF types and their functions?

We consider that the existing IOSCO recommendations as published in 2012 represent a good combination of policy options by mixing rules on liquidity risk management, transparency and stress testing. Similarly the wide range of rules adopted under the MMFR in the EU represent a relevant and an effective combination of regulatory requirements to address MMF vulnerabilities. Only targeted changes could be envisaged after proper assessment of their impact on the whole ecosystem.

15. To what extent should authorities seek to align MMF reforms across jurisdictions? Is there a minimum set of policies or level of MMF resilience that should be considered at the international level to avoid fragmentation and regulatory arbitrage?

Once again, the existing IOSCO recommendations have introduced an appropriate set of minimum principles to be complied with by all jurisdictions. The 2020 crisis has not fundamentally change the analysis of functioning and role of MMFs. This crisis has been much shorter and has revealed that exiting rules have allowed to avoid strong disruptions.

As a result we recommend to maintain globally the reforms as currently defined. Only elements that should be considered as potential options are about (1) providing more information on investors in MMFs, (2) introducing liquidity/redemption fees as the most relevant liquidity management tools, (3) removing the ties between the regulatory thresholds and imposition of fees and gates and (4) adding a layer of government debt in the specific case of standard MMFs. All these options should be properly assessed in terms of relevance and calibration before being retained.

Short-term funding markets (STFMs)

16. Does the report accurately describe problems in the structure and functioning of STFMs and how these have interacted with MMFs in stress periods?

In our view the report accurately describe these topics. We have no additional comments on our side.

17. What other measures should be considered to enhance the overall resilience of STFMs? How would those measures interact with MMF policy reforms and how effective are they likely to be in preserving market functioning in stress times?

We consider that potential measures to be envisaged are properly listed with some of them that would be quite disruptive for MMFs and could result in the end of MMFs. When further reviewed, it is essential to assess their interaction with MMF policy reforms as both are highly connected. As explained previously, the 2020 crisis has fully demonstrated that MMFs are dependent on the well-functioning of the underlying money markets.

Additional considerations

18. Are there any other issues that should be considered to enhance MMF resilience?

In our view, the following elements that should also be considered when reviewing MMF resilience aspects, in addition to the comments we made all along this consultation paper:

- First we would like to insist on the need of having further coordination between central banks and securities regulators on the review of MMFs. The dialogue initiated during the crisis should continue in order to ensure that both systemic risk consideration and functioning and role of MMFs are adequately taken into consideration when envisaging additional measures.

- Measures making sense in case of crisis situation should not be extended on a permanent basis as this would create too much pressure on MMFs without adding value. Too strict and prescriptive measures which are designed to address only highly market stressed conditions could impede the well-functioning of MMFs in normal conditions and make them less attractive for both investors and borrowers. As an illustration, daily reporting is justified in case of crisis situations whereas quarterly reporting is sufficient in normal conditions.

- Standard VNAV have proven to be resilient during the 2020 crisis and should be preserved in the future. Imposing shorter asset maturity and /or restricting the scope of eligible assets for these funds may result in the end of standard MMFs whereas they have an important role for many stakeholders.