POLICY PROPOSALS TO ENHANCE MONEY MARKET FUND RESILIENCE - FINANCIAL STABILITY BOARD 30 JUNE 2021

COMMENTS TO FINANCIAL STABILITY BOARD fsb@fsb.org with TITLE "MMF policy proposals"
DEADLINE 16 AUGUST 2021

FROM: [CORONATION FUND MANAGERS LTD]
DATE: [12 AUGUST 2021]

#	QUESTION	RESPONSE
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?	The key vulnerability in our view should be the ability of MMFs to access liquidity in times of stress. As mentioned in the SARB presentation, the primary concern of the banks during the COVID crisis was to protect their own liquidity positions. This happened on both the asset and liability side of their balance sheets. On the asset side, they were able to raise liquidity through the SARB standing facility (repo - and only banks could participate). On the liability side, Banks protected liquidity by increasing both the rates of their NCD curves and their bid/offer spreads. This allowed banks to hoard liquidity while the rest of the market was left dealing with the impact of limited liquidity. In our view, this also contributed to the extreme sell-off in government securities as they were the only avenue left to raise liquidity. As systemic providers of liquidity to the banking system, MMF should benefit from central bank support during times of crisis. Please note that we do not believe this should absolve MMFs from maintaining prudent liquidity buffers in the form of call balances.
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?	In our view there are a few options on the table: 1. Firstly, central banks should play a central role in ensuring that liquidity support mechanisms transfer through the entire monetary system. When banks started aggressively moving their NCD pricing curves, the SARB should have rather encouraged them to lean on asset-side liquidity measures to support the flow of funds through the system. We acknowledge that the nature of deposits also changes during these kinds of periods, whereby long-term deposits move to call/cash accounts. This forces banks to hold more liquidity in terms of LCR ratios, but this can easily be addressed through prudential concessions (as was the case during COVID). 2. We have also suggested that emergency repo facilities for eligible collateral be made available to NBFI's. This does require the implementation of various systems to properly implement and monitor but would ensure that banks do not become the primary conduit of liquidity transfer during times of stress.

#	QUESTION	RESPONSE
		3. Allowing MMFs to place excess liquidity with the central bank is another option. This has been used very effectively in jurisdictions such as the United States, where MMFs can place reverse-repo directly with the central banks. This cash could then be readily accessible in times of a crisis, and the central bank would then have a holistic view of what the liquidity requirement in the entire monetary system would be. But this is just one option. Allowing the central bank to make a market in and/or repo T-Bills, as an example, would also be helpful, particularly given that T-Bills are forming a greater part of MMF assets given lack of corporate issuance and meagre NCD spreads on offer. But more generally, the SARB defining a set of instruments that they will repo and/or make a market in during times of crisis for MMFs would be exceptionally useful in creating a liquidity framework going forward. 4. In addition, or as an alternative to the above, developing a deeper and more liquid market in terms of repo facilities between funds and commercial banks would be beneficial. This is not currently the case in South Africa and would almost definitely need to be monitored by the central bank.
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?	The very nature of MMFs lends itself to this particular use. The issue is not to change the use of MMFs, but rather to allow MMFs to be able to operate more effectively during times of stress. In this regard, we have provided our suggestions in the point above.
Form, 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?	Yes

#	QUESTION	RESPONSE
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?	Yes. We do not really have a distinction between public debt and non-public debt MMFs in South Africa. We therefore cannot comment on the appropriateness of substitutes. The only comment we would make is that regardless of the substitute (except for bank deposits), we would argue that the need for an efficient liquidity transfer mechanism is still relevant.
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?	Yes
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 have significant reservations about some of the mechanisms that are being suggested to enhance MMF resilience: The imposition of losses, swing pricing or minimum balance at risk would be not be appropriate in a South African context. In a relatively closed liquidity system, such actions could create a run on MMFs and potentially other financial institutions. A call deposit at a bank would not be subject to the same pricing mechanisms unless the bank were to fail. South Africa cannot afford to reduce investor confidence in MMFs. We do not see the implementation of a capital buffer as being economically viable (the costs would be prohibitive in a low yield environment). Removal of stable NAV would also reduce the appeal of money market funds. On this point, it is important to note that MMFs have played a vital role in maintaining a competitive tension in bank deposit pricing, which has ultimately been beneficial to retail investors. A loss of faith in MMFs through implementing these mechanisms would therefore shrink the size of this market and lead to a reduction in the efficacy of this regulation mechanism. We believe that previously mentioned mechanisms regarding improved liquidity support mechanisms should be the primary tools available to enhance MM resilience.

#	QUESTION	RESPONSE
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 have no further items to consider.
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)?	No - we do not believe that the options adequately deal with the ability of MMFs to access liquidity during stressed periods. We have explained this in detail in question 2 and mentioned again in question 7. We have touched on the appropriateness of policy options for South Africa in question 7 above. In addition, we believe that it would be beneficial for policy makers to define a set of highly liquid instruments and minimum holdings of these instruments for MMFs, to ensure that these funds are taking appropriate action to ensure liquidity stress is managed from their perspective. However, the central bank would need to provide a framework to ensure that these instruments can be appropriately liquidated during times of stress as highlighted in question 2. We are unable to comment on the appropriateness of policies for public debt vs non-public debt MMFs given that this distinction is not prevalent in South Africa
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	Yes

#	QUESTION	RESPONSE
	the effectiveness of these options?	
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?	Yes
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 do not have any objection with fund specific or system wide stress tests, however given the limited range of instruments that South African MMF can invest in, this should not be a complicated process. We fully support enhanced liquidity mechanisms through improved market transparency, standardization and dealer market making. MMFs already have stringent reporting requirements. We are not sure what further reporting measures could achieve.
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?	Again, we have addressed this in question 2 above.
14	Which options complement each other well and could potentially be combined? What are the most appropriate combinations to address MMF vulnerabilities in your	Previously addressed in questions 2, 7 and 12.

#	QUESTION	RESPONSE
	jurisdiction? Which combinations are most effective for different MMF types and their functions?	
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?	There will likely always be geographic nuances that require specific reforms to be implemented in certain geographies. In addition, the functioning of MMFs within the broader monetary system should also be a consideration in how MMFs are regulated in different geographies. Avoiding regulatory arbitrage is important but aligning reforms for the sake of it doesn't necessary make sense either.
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?	Yes
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?	The issue of market structure and liquidity doesn't just extend to CP and CD markets. Short-dated government bills are also an issue. We strongly advocate for the central bank to consider market-making in these instruments during times of stress.

#	QUESTION	RESPONSE
Additional considerations		
18	Are there any other issues that should be considered to enhance MMF resilience?	No.