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: SANLAM INVESTMENTS
DATE: 16 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?	Key vulnerabilities are providing of liquidity during stress times. A focal point should be reforms in the secondary market: Treasury Bills, repo market for MMF instruments.
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?	A focus on improving the underlying short-term funding markets.
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?	In SA Market, the relaxation of Liquidity /regulatory ratios on the banks benefit did not feed through to MMF instruments (floating rate spreads was artificially low once the SARB intervened).

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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, they are managed with the aim of providing principal stability, daily liquidity, risk diversification and returns. Some of the structures mentioned in the report are not relevant to the SA market (eg repo market for MMF instruments – short term government debt).
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?	Investors normally prefer more diversification in MMF's than the substitutes (bank deposits).
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?	In SA, the experience in 2020 was mostly large net inflows into MMF's as investors sold out of more risky assets. The vulnerabilities were not enough warning signs for the SARB to react timely to relax liquidity/regulatory ratios. Once that happened liquidity came back into the market. There is a concentration to the big banks as MMF's hold large volumes of bank NCD's.

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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?	Consideration should just be noted that the mechanisms will change the nature of MMF's by providing lower returns to investors. It will however increase the liquidity for investors in MMF's.
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?	
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?	They would address the vulnerabilities but some of the representative policy options, eg swing pricing and removal of stable NAV will change the identity of MMF's and will increase uncertainty (and be less transparent) for clients invested in the funds.

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	Are there other policy options that should be included as representative options (in addition to or instead of the current ones)?	
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?	These options (and effectiveness) will compromise already relatively low rates earned by the nature of the risk taken in MMF's. Taking into consideration that inflation in South Africa and in EM in general is relatively higher compared to developed market, this additional cost will eat into an already diminishing real yield/returns.
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?	The descriptions and comparison are appropriate. Not all are relevant in the SA market as the structure is different than other jurisdictions. The variants suggested does have operational challenges and would change the demand for MMF's in SA market.

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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?	Improvement in the underlying markets will be most effective. Transparency requirements will be effective and assist the authorities to assess market dynamics and intervene/provide support during stress times.
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?	Yes, but consideration should be given to SA market's MMF's by considering size and structure, investors, borrowers (as mentioned in the report).
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?	The vulnerabilities in the STFM should be addressed first before trying to enhance resilience by making MMF's more cash-like or investment-like.

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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?	MMF reforms can be aligned in similar markets with well-developed STFM's.
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?	The report is not South Africa specific in this section in some aspects, as MMF's don't repo their assets. Agreed that dealers (banks) as intermediaries are not active in making secondary markets for CP instruments as MMF's tend to buy and hold those instruments to maturity.
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?	A repo market for MMF instruments. This will increase liquidity temporarily in stressed periods for MMF's by doing reverse repos of longer term instruments in MMF's. South African markets need a sufficient secondary market for Government TB's.
Additional considerations		

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