Money markets are an important short-term capital market that contributes to the financing of the economy. As such, they are one of the pillars of the global financial system.

MMFs play an important role in this market allowing the encounter between a short term financing need and a short term investment, offering a remuneration in line with money markets. In France, they allow for more than 40 years (since 1981) a sustainable financing of the short end of the economy.

They are regulated in Europe mainly by the Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds (MMFR) since its publication in 2017. The current context of discussion regarding possible evolutions of MMFR pertain to the revision clause that states that *"by 21 July 2022, the Commission shall review the adequacy of this Regulation from a prudential and economic point of view, following consultations with ESMA"* and to the lessons learned from the liquidity stress faced by money markets in March 2020 during the COVID-19 pandemic.

Resilience during the pandemic

No European MMF suspended during the pandemic and each MMF dealt with its redemptions. In the French market, despite important redemptions, especially in March 2020 (-52.4 bn euros), French VNAV money market funds managed the outflows

Unlike 2008, there was no issue with the portfolio composition, particularly in terms of asset quality; funds were healthy and resilient in their construction and composition.

Investors' confidence was maintained : despite the significant net outflows in March, overall inflows in French MMFs over the first 8 months of 2020 amounted to +48.6 bn euros.

AFG reminds that the crisis was an exogenous shock to money markets that generated a genuine « need for cash » from corporates related to their economic activity sudden fall. There is no «flight to quality» phenomenon to report in this case.

As any other investment fund, MMFs are dependent on the well-functioning of underlying markets. Afg believes that the programs and the responsiveness of the central banks were relevant and that the learning curve makes everyone better prepared. Market stakeholders recognize the need for more transparency, flexibility and the collection of early warning signs on money markets as a whole, not only/specifically on MMFs.

MMFR options

AFG would like to comment mainly on two major aspects of the proposed reform options:

- Allocate the cost of liquidity to redeemers
- Enhance liquidity on asset side.

They may have the potential to increase fund resilience, but at the same time it should be avoided that details and calibration proposed for implementation have side effects that overtake their utility.

→ Allocating the cost of liquidity to redeemers

AFG is favourable in principle with the introduction of an anti-dilution method, however the operational characteristics are major.

AFG advocates strongly for a liquidity fee, which is operationally a better solution than swing pricing or ADL for money market funds. AFG thinks that, drawing lessons from the COVID-19 crisis, the legislator should look for a « systemic » utility of the tool as it should only be applied in difficult markets, not in normal ones.

The fee should take the form of a fixed percentage in relation to money market type of remuneration, ie of a few basis points. In any case, it should be avoided that the liquidity fee amounts to a « sanction ».

AFG would like to remind that from a pragmatic standpoint, all crises are dealt with in coordination. Thus, it should be acknowledged that there should be a coordinated activation and/or information with the authorities at least at the level of the currency/financial center.

→ Enhancing liquidity on asset side

AFG believes that the success on the asset side of liquidity lies fundamentally with the underlying money markets' smooth functioning. All efforts should be done to ensure an orderly functioning of the markets.

Regarding the VNAV liquidity ratios' functioning, AFG strongly believes that any change or addition to Art 24 (2) and 25 (2) will introduce threshold effects and strongly advocates for maintaining the current wording.

MMFR Government paper inclusion

Regarding liquidity ratios, it is useful that government paper inclusion in the current WLA be possible, but an additional mandatory liquidity layer is a false good idea.

Contrary to ESMA, the ESRB has proposed for VNAVs mandatory 5% and 10% supplementary buckets invested in government paper and that can only be used in times of crisis upon authority approval. AFG strongly opposes the mandatory and constrained features. Indeed, there are several reasons that show that this will not be workable, for instance:

- Paper Squeeze: High quality government paper may be difficult to find at times for all actors involved and for the volume implied
- European Public debt dispersion: There is different availability, liquidity and risk characteristics of public debt in different currency areas in Europe
- Spill-over risk: There is a high risk of shifting or amplifying the crisis in the public debt area
- Procyclicality risk: there is room to procyclicality instead of the « contracyclicality » effect that is originally sought due to the constrained/threshold effect
- Contrary effect to higher liquidity: the resulting trade-off between holding daily liquidity and govies may very well give rise to a globally less liquid fund
- Dependence of banks on government papers after 10 years of expansionary monetary policy: AFG questions if it is reasonable to disseminate this dependence to other funding actors such as MMFs.

AFG believes that ESMA's proposal to give the possibility (option) to include government paper in the weekly ratio is by far the best option.

Public debt instruments could become eligible for VNAVs (but not compulsory) inside the weekly ratio. The objective is to be indifferent between public debt and daily liquidity for instance and not push for public debt at the detriment of overnight liquidity.

Mandating a Public Debt Quota to MMFs bears only drawbacks regarding both the management of MMFs and financial stability objectives.

MMFR – VNAV liquidity ratios

In general, AFG believes that current liquidity ratios work well, allowing the asset manager to adapt and increase ratios depending on the circumstances.

More specifically, VNAV's dealing NAV being a market to market one, there is no need to increase the liquidity ratios to compensate for the discrepancy with a dealing NAV based partly on cost accounting. As long as markets are functioning, instruments can be traded and liquidity is accessed, as for any other fund. AFG thus does not recommend increasing liquidity ratios for VNAVs.

If legislators envisage to propose a limited increase of liquidity ratios so as to enhance MMF resilience, it should be recalled that a too high increase will jeopardise the usefulness of MMFs to finance the economy, will diminish the interest of investors for MMFs comparative to bank deposits, will result in paper squeeze and/or important cash amounts held in depositary's account…In any case, the calibration is key.

More particularly, AFG disagrees regarding ESMA's and ESRB's proposal for liquidity ratios that are differentiated for Standard VNAVs compared to short-term MMFs. There is no reason to prescribe a higher weekly ratio for Standard VNAVs and such a proposal will have unintended consequences on the market as a whole. If some markets are predominantly investing in Standard VNAVs is that they correspond to desired features of investors that are not fulfilled by short term MMFs. Standard VNAVs benefit from a larger investment universe that allows for more diversification for standard MMFs and thus more diversified liquidity sources. Also, the risk/maturity profile sought by investors is different from a short term VNAV. As explained, it is the amortised cost, not maturity, that requires more immediate liquidity in the fund. It should also be reminded that Standard VNAV MMFs follow exactly the same rules as short term MMFs – including LVNAV MMFs - when it comes to credit assessment or authorized / eligible instruments they can hold in their portfolios. Only their WAL (weighted average life) or WAM (weighted average maturity), at the instrument or portfolio level, follow more extensive rules than their peers.

MMFR Liquidity ratios' functioning (Article 24 and 25)

AFG believes that current functioning of the liquidity ratios is countercyclical and that any change or addition to Art 24 (2) and 25 (2) will necessarily introduce threshold effects.

Indeed, let aside the LVNAV/PDCNAV specific coupling issue, the current ratios are well functioning for VNAVs and need no change. They work as any other ratio (in the asset management space) where it is expected to comply at all times and when the exceptional circumstances induce a passive breach, the asset manager makes all efforts to remedy the situation in the best interest of investors.

The current text is very clearly and unambiguously worded:

> *2.If the limits referred to in this Article are exceeded for reasons beyond the control of an MMF, or as a result of the exercise of subscription or redemption rights, that MMF shall adopt as a priority objective the correction of that situation, taking due account of the interests of its unit holders or shareholders*
>
> *(d) […] A short-term VNAV MMF is not to acquire any asset other than a daily maturing asset when such acquisition would result in that MMF investing less than 7,5 % of its portfolio in daily maturing assets;*
>
> *(f) […] A short-term VNAV MMF is not to acquire any asset other than a weekly maturing asset when such acquisition would result in that MMF investing less than 15 % of its portfolio in weekly maturing assets;*

AFG would like to stress that, at a time where it is sought removing the regulatory trigger effects around liquidity requirements for LVNAVs/PDCNAVs, legislators should pay attention not to introduce a new « coupling » for all MMFs with risks of cliff effect and first mover advantage. Indeed, it would be detrimental for all MMFs, including VNAV MMFs that currently have no “coupling” risk, to link the use of the liquidity ratios to any triggers or criteria. It is not advisable to link the ratios to a regulator’s decision to allowing the lowering of ratios at a moment where liquidity is sought. In addition, considering behavioural finance, it is not a message/alert to convey to investors and market. In any case, a passive breach that exceeds 48h can be reported to the NCA as a normal course of business while allowing to avoid any unintended amplification risks.

→ Seeking to define in advance stress or exceptional market situations

Fund regulation has always been wise not to define “exceptional conditions” that are by definition not predictable. Every crisis is different. AFG thus advises avoiding any unnecessary delegated acts that would have as objective to define stress or exceptional market conditions.

→ Reporting requirements

AFG is not supportive of a higher frequency for MMF reporting unless there is proof of real value added for the money markets enhanced functioning. In any case, there is the need to take into account the cost/efficiency balance, knowing that MMF reporting is very costly and burdensome.

On the contrary, AFG is favourable that in times of stress, asset managers give daily a list of limited essential metrics to NCAs (DLA, WLA, Total Assets, NAV, WAM, WAL, the mark to market/model NAV, inflows and outflows), plus potential other indicators depending on the crisis specifics (and that by definition cannot be known in advance).

→ Stress tests

AFG believes that ESMA should continue receiving stress tests from NCAs and asset managers thus continue to send one report to one entity.

While totally understanding the need and supporting the call for global statistics on money markets, AFG questions the feasibility of asking asset managers to include “where relevant, the behaviour of other market participants”.

→ External support

AFG does not see any need for clarification of the existing requirements on external support. On the contrary, ESMA’s suggestions may bring new questions and side effects. The ESMA’s public statement of 9 July 2020 on external support under Article 35 of the Money Market Funds (MMF) Regulation represents a sufficient clarification, if needed.

→ LVNAVs

French MMFs are exclusively crafted as VNAVs.