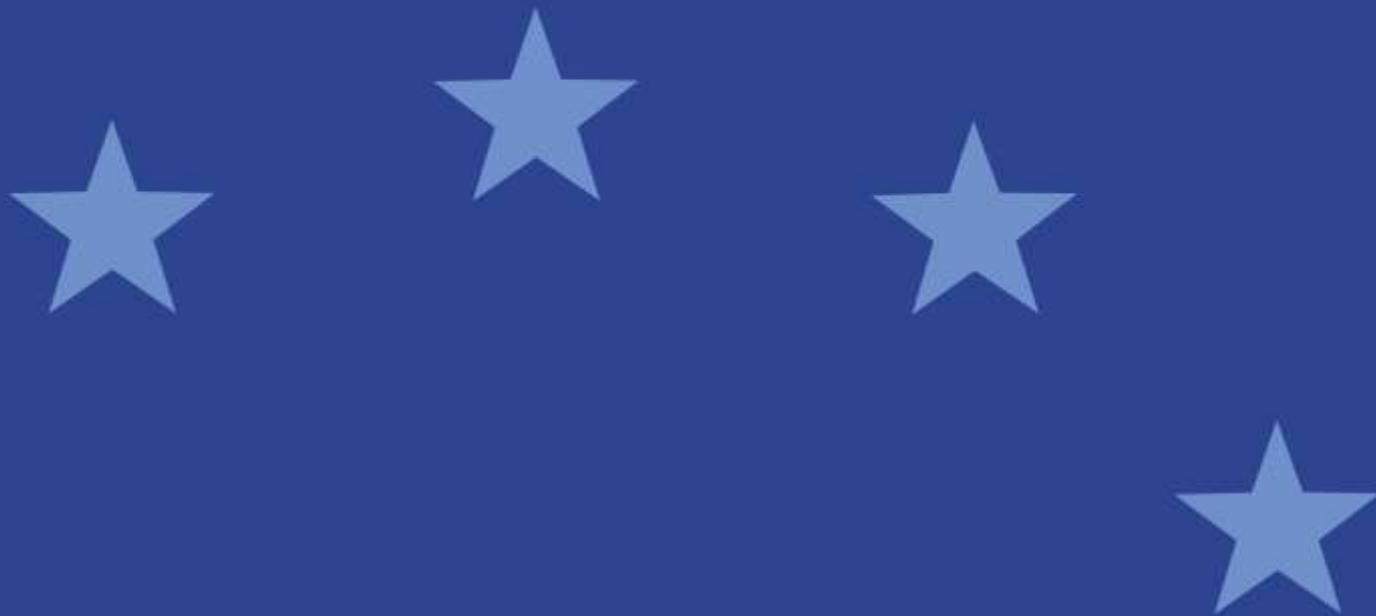




European Securities and
Markets Authority

**Reply form for the Consultation Paper on
Draft technical advice, implementing technical standards
and guidelines under the MMF Regulation**



Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in Consultation Paper on Draft technical advice, implementing technical standards and guidelines under the MMF Regulation (MMF), published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_QUESTION_MMF_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text "TYPE YOUR TEXT HERE" between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_MMF_NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA_MMF_XXXX_REPLYFORM or

ESMA_MMF_XXXX_ANNEX1

Deadline

Responses must reach us by **7 August 2017**.

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input/Consultations'.



Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the headings 'Legal notice' and 'Data protection'.



General information about respondent

Name of the company / organisation	AFG
Activity	Investment Services
Are you representing an association?	<input checked="" type="checkbox"/>
Country/Region	France

Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_MMF_1>

The Association Française de la Gestion financière (AFG)¹ is grateful for the opportunity given to comment on ESMA's consultation paper on Draft technical advice, implementing technical standards and guidelines under the MMF Regulation.

Our association represents French asset managers whose investment activities cover all asset classes including money markets. They have proven expertise on money market funds, a fund regulatory (AMF) classification that exists in France since 1987. French MMFs amount to 368.6 € billions as of end of February this year. They are all VNAVs.

We thank ESMA for the hard work accomplished within a very tight timeframe and the resulting high quality and degree of technical details of this consultation paper.

We express our view that the consultation should not diverge from the MMFR mandate, especially avoid to overload the reporting template and stick to those items the MMFR considered appropriate to collect in the specific case of MMFs.

Even if we understand the intellectual merits of mentioning the US regulation and market practices in the mapping exercise, we deem highly relevant to acknowledge that European and US markets are not comparable. Regulatory work should adapt to market practices and be relevant in the particular context of its own market.

We believe stress test results in the reporting should be a text item because it will represent the assessment of the stress test in the particular context of the fund. The figure result of the stress test without the assessment is of little interest and may be counterproductive if comparisons are made. It is meant to be an assessment tool, not a comparison tool, nor a management tool.

As regards the application date of the draft guidelines on stress tests (page 151), it should be mentioned that these Guidelines apply with the same timeframe as the MMFR. Indeed, the MMFR applies for new funds 12 months after the entry into force, but the existing funds have 6 more months to prepare compliance. ESMA should be clear that it does not create prior application dates than the MMFR itself.

<ESMA_COMMENT_MMF_1>

¹ The Association Française de la Gestion financière (AFG) represents the France-based investment management industry, both for collective and discretionary individual portfolio managements. 600 management companies are based in France. AFG members manage 3,000 billion euros, making the Paris fund industry a leader in Europe for the financial management of collective investments (with 1,500 billion euros managed from France, i.e. 19% of all EU assets managed in the form of investment funds). In the field of collective investment, our industry includes – beside UCITS – the whole range of AIFs, such as: employee savings schemes, regulated hedge funds/funds of hedge funds, private equity funds, real estate funds and socially responsible investment funds. AFG is an active member of the European Fund and Asset Management Association (EFAMA) and of PensionsEurope. AFG is also an active member of the International Investment Funds Association (IIFA).





- 1. : Do you agree that the abovementioned references to EU/US standards are relevant in the context of the issuance by ESMA of technical advice on quantitative and qualitative liquidity and credit quality requirements applicable to assets received as part of a reverse repurchase agreement in the context of the MMF Regulation? Do you identify other pieces of national/EU/International law that would be relevant in view of the work on this part of the advice?**

<ESMA_QUESTION_MMF_1>

No, we do not identify other pieces of regulation relevant to the work on this part of the advice.

We appreciate the hard and quite exhaustive work that have been performed.

If we agree that the abovementioned references to **EU** standards are relevant in the context of the issuance by ESMA of technical advice on quantitative and qualitative liquidity and credit quality requirements applicable to assets received as part of a reverse repurchase agreement in the context of the MMF Regulation, we caution against taking for granted that US regulatory context could be a good reference to take into account.

Indeed, even if we understand the intellectual merits of mentioning the US regulation and market practices in the mapping exercise, we deem highly relevant to acknowledge that European and US markets are not comparable. Regulatory work should adapt to market practices and be relevant in the particular context of its own market.

<ESMA_QUESTION_MMF_1>

- 2. : Which of the options described above regarding credit quality and liquidity requirements would you favour?**

<ESMA_QUESTION_MMF_2>

We totally favour option a.

This is the only option that solves in an appropriate manner the MMFR mandate regarding the credit and liquidity requirements in the context of the collateral received in the context of a reverse repurchase agreement.

The collateral is a second step defence; the first level of risk is linked to the quality of the counterparty. We thus totally agree with the rationale behind the approach of option a.

Option a is compatible with market practices and is evolutive. It allows for instance to take into account cleared reverse repos as it is capable of acknowledging the quality of a CCP.

From a wider market stability standpoint, it is a very coherent approach as it encourages to deal with quality/regulated/centrally cleared counterparties.

Option a has also the merits of achieving a certain level of standardisation, which is most welcome in this particular context.

<ESMA_QUESTION_MMF_2>

- 3. : With respect to option a), do you think the haircut policy should be determined as suggested, or should there be more flexibility given to the manager on this determination? Do you think that the decision of equivalence vis a vis third countries mentioned in this option should relate to the one mentioned in Article 114 (107 in the case of credit institutions) of CRR?**



<ESMA_QUESTION_MMF_3>

We agree with the proposed haircut policy. Our members think that a standardised haircut policy offers operational advantages and legal certainty. Our members do not see an advantage in giving more flexibility in setting haircut levels which are linked to a wider market level and assessment of risks where standardisation is welcomed.

<ESMA_QUESTION_MMF_3>

- 4. : With respect to option b) on liquidity requirements, do you think that requiring assets convertible to cash in one business day or less is appropriate? Do you think this requirement should be more detailed and refer to trade date or settlement date, for example? With respect to that same option b), how do you think that the criteria mentioned in this option could be defined in more detail, and how could quantitative indicators be introduced? Do you think all the criteria mentioned in Article 2(3) of this option b) are relevant? Under this option, when the liquidity assessment of the manager is that the assets would no longer be liquid assets, the manager shall take immediately any appropriate action including the replacement of the collateral with another asset that would be qualified as liquid assets. Do you think that the replacement of the collateral could be carried out overnight?**

<ESMA_QUESTION_MMF_4>

Our members are of the opinion that option b is not appropriate. To be clear, our members do not “rank” option a versus option b, they put straight that option b is not conceivable. Option b asks more questions than it solves.

Operationally, option b introduces incompatibility as it would ask asset managers to assess the criteria such as volumes on a daily basis whereas reverse repos are contractually entered into.

Regarding the requirement for assets to be convertible to cash in one business day or less, the market practice works more in terms of “settlement date” which is generally at “T+2”. The dealing date/trade date is a consequence of the settlement date of assets. Asking that assets be convertible to cash in one business day or less is unrealistic due to market conventions for settlement.

High quality assets (OATs, Bunds) are “available for sale” within one day and then runs the standard settlement delay.

AFG is puzzled regarding the notion of replacement of collateral. Most often, asset managers recall the reverse repo operation than operate a replacement of collateral, which in any case is contractually defined. Maybe the replacement of collateral may be operated within a tri-party reverse repo, but according to AFG members, this is not yet available on the French money market (it is currently a practice for inter-bank market dealers).

<ESMA_QUESTION_MMF_4>

- 5. : What would be in your view the consequences in terms of costs of the chosen option, and of the other options mentioned above? Do you agree with reasoning mentioned in the CBA (annex III) in relation to the possible costs and benefits of the options as regards the abovementioned credit quality and liquidity requirements? Which other costs or benefits would you consider in this context?**

<ESMA_QUESTION_MMF_5>



Regarding option a, we agree with ESMA's CBA (p 90), that the proposed approach is unlikely to lead to significant additional costs. Haircuts tables are given and the determination of the quality of the counterparty follows straightforward criteria.

Regarding option b, we disagree with the ESMA's CBA (p 91), as our members foresee operational difficulties with the daily monitoring of such a bunch of criteria, knowing that the benefit of such an approach is totally marginal with regards to the objective assigned.

It is always difficult to put figures on future regulatory costs, but for the avoidance of doubt, option b is more costly than option a in any case.

<ESMA_QUESTION_MMF_5>

6. : Do you agree that the abovementioned references to EU and US standards are relevant in the context of the issuance by ESMA of technical advice on credit quality assessment under the requirements of the MMF Regulation? Do you identify other pieces of national/EU/International law that would be relevant in view of the work on ESMA technical advice on credit quality assessment under the requirements of the MMF Regulation?

<ESMA_QUESTION_MMF_6>

AFG believes that references to CRA are suitable in the objective of setting a proportionate and principle based approach, the only approach convenient to asset managers activity. This is already very clear for ESMA and we appreciate that ESMA has not lapse into being prescriptive or asking us to become "like" rating agencies.

Credit quality assessment for asset managers helps ultimately to build buy / no buy lists. Ranking may be of use as an intermediary step depending on the asset managers' analysis department organisation, but it is not a prerequisite. The objective of the assessment for asset managers is to contribute to investment decisions, which is different from a ranking within a CRA or an analysis of credit risk in a banking institution.

<ESMA_QUESTION_MMF_6>

7. : Do you agree with the proposed option on each of the requirements mentioned in Article 22 of the MMF Regulation? If not, could you specify which existing regulatory framework would you suggest as a basis for the work on the technical advice related to Article 22 of the MMF Regulation?

<ESMA_QUESTION_MMF_7>

We agree to the regulatory reference taken and the proposed options knowing that prescriptive items should be limited.

We totally disagree with ESMA's reference to a "scale". First, MMFR does not refer to such a scale, ESMA is going beyond its mandate if it makes this reference. Second, the reasons that brought MMFR not to ask for a scale are linked to the specificities of credit assessment in the context of asset management. We are convinced that the diversity of internal processes should prevail. Putting in place a second process specific to MMFs is not cost effective with little, if any, corresponding benefits.

We propose the following wording on p 101:

Article 3

Ensuring that the credit quality assessment methodology is systematic

1. The manager of a MMF shall use a credit quality assessment that systematically applies key credit quality assumptions and supporting criteria in the formulation of all credit quality assessments for a given category of issuer or financial instrument, unless there is an objective reason for diverging from it.
2. The manager of a MMF shall use a credit quality assessment methodology which is capable of promptly incorporating the findings from any review of its appropriateness.
3. The manager of a MMF shall use a credit quality assessment methodology which ex-ante defines its own **output formalism** of credit **assessment** and identifies the situations where the assessment is deemed to be favourable.

One remark on page 102:

Article 1(c) on page 102 refers to the default statistics relating to the issuer or instrument. An issuer's default statistics would almost always be zero as although some issuers may be restructured and live to fail again this would be unusual. MMFs invest in high quality issuers, this item regarding default statistics has for almost all cases no meaning in our context. It would be best to specify that this item is disregarded unless there is a special case where this is taken into account as exceptionally meaningful.

On page 103 we propose the following wording relating to Article 2:

(d) **if relevant**, analysis of the credit ratings or rating outlooks assigned to the issuer or instrument; by a credit rating agency registered with ESMA and selected by the manager of an MMF **if / as** suited to the specific investment portfolio of the MMF.

Indeed, there should be no obligation to work with CRAs as it is the asset manager who decides if he wants CRAs in his credit analysis toolkit. Also, it should be recalled that asset managers may consult CRAs' outputs, but should in no case be obliged within their processes to pay automatic data feeds to CRAs nor to store CRAs data.

Regarding the section on material change on page 104, we propose to delete the redundant enumeration of bullet points relating to # 2.

Given that the quality of an instrument is independent of its liquidity, we suggest deleting "the degree of volume and liquidity" in article 2 (b) on page 103. Liquidity is taken into account in the liquidity requirements. For this reason, we could also consider deleting the whole sentence in article 2 (b).

Therefore, we propose the following wording to article 2 on page 103:

Article 2 (b) Analysis of the relevant market(s), ~~including the degree of volume and liquidity;~~

On the page 105 # 4, we propose the following wording:

"....To that end, the manager of a MMF should be able to establish an internal procedure for the selection of credit rating agencies **if / as** suited to the specific investment portfolio of the MMF and for determining the frequency at which the MMF should monitor the ratings of those agencies....".

Indeed, (and this point is capital regarding the effectiveness of reducing the credit rating mechanistic dependency), there should be no introduction of an obligation to integrate CRAs ratings in the MMFs' assessment processes. All articles in MMFR are totally free of such an obligation. The legislator did not intend to introduce such an obligation. The only reference to CRAs in a unique Recital that mentions the downgrade by a CRA in the context of the material change if the manager chooses to take that CRA into account (if any) does not constitute a sufficient legal hitch to impose such a heavy-of-consequence type of obligation. We thus urge ESMA to be cautious and not introduce an obligation, but leave it open to the decision of the asset manager to refer to zero, one or several CRAs in its internal processes.



<ESMA_QUESTION_MMF_7>

- 8. : In your view, what would be the consequences (including operational ones) of the level of detail and prescription suggested above in the proposed technical advice on credit quality assessment under the MMF Regulation (which would be broadly similar as in the delegated Regulation on the assessment of compliance of credit rating methodologies (447/2012), and in the technical advice on reducing sole and mechanistic reliance on external credit ratings (2015/1471))?**

<ESMA_QUESTION_MMF_8>

With the exception of the points mentioned above that are problematic, our members evaluate that ESMA has performed a good exercise by avoiding being too prescriptive, which would have reduced the diversity of opinions and thus would have potentially led to systemic risk. Generating mimetic and simultaneous behaviors may indeed turn into systemic risk.

The assessment of the credit quality of an issuer is subjective. While quantitative metrics are part of the criteria used in the evaluation process, they are nevertheless information from the past. Projections of these information are based on assumptions, anticipations, that by definition can differ from one analyst to another. On the other hand, qualitative measures (management effectiveness, strategy...) are subjective and despite they could be judged “good” or “bad”, only the future will tell what was the right answer.

Credit analysis plays a key role in the management of investment funds. The success in anticipating the evolution of the credit quality of an issuer is a major component in the creation of performance and is an important element of the reputation of an asset manager.

The difference of views from market participants is a key pillar of the functioning of financial markets. It is highly important to preserve the diversity of views between MMF managers for the same issuer.

<ESMA_QUESTION_MMF_8>

- 9. : What would be in your view the consequences in terms of costs of the chosen options described above in relation to the requirements included in the technical advice under Article 22 of the MMF Regulation? Do you agree with the assessment of costs and benefits mentioned in the CBA (annex III) on the technical advice under Article 22 of the MMF Regulation? If not, please explain why and provide any available quantitative data that the proposal would imply.**

<ESMA_QUESTION_MMF_9>

The chosen options allow to get closer to current market practices, which is less costly.

We totally agree with the CBA p 91/92. A standardised approach would be very costly, unnecessary and lead to poverty of diverse opinions in the market which could turn into mimetic behaviours and finally to systemic risk.

<ESMA_QUESTION_MMF_9>

- 10. : Do you think other type of information should be considered as “characteristics” of the MMF?**

<ESMA_QUESTION_MMF_10>

AFG agrees with the ESMA's proposal to build on the existing reporting within AIFM whenever possible, but also thinks that the sections of the MMF reporting template should not diverge from the MMFR mandate, especially avoid to overload the template and stick to those items the MMFR considered appropriate to collect in the specific case of MMFs.



AFG believes the LEI code is sufficient, well known and identified. No other code should be required.

Section A.1.13, A.1.14, A.1.15 should preferably disappear as there is no obligation with MMFR to have a benchmark. In addition, the Benchmark regulation is not yet applied and the terminology choice between reference index and benchmark is still to be assessed.

On pages 115/116, we recommend for the point c) *Information on preceding fund or liquidation* to keep only the section A.3.23. The other sections are an unnecessary burden at each reporting date.

There are sections, such as A.3.14 that refer to the “shadow NAV”. Does this correspond to an intention of the regulator or is it to be changed at a later stage in the “NAV calculation as foreseen in Article 30 of MMFR”?

On page 119, the section A.4.10 is not useful, as “unencumbered cash” is a valuable information in the case of a hedge fund, not a MMF. Regarding the section A.4.9. on the “portfolio liquidity profile”, the time intervals should be relevant for MMFs (regarding liquidity, but also cost accounting): 1 day; 7 days; 1 month; 75 days (for LVNAVs); above 90 days.

AFG totally disagrees with the sections on the yield calculations on page 120. We would like ESMA to delete all sections on page 120. These calculations are too costly. In addition, they are not required and they are not adapted to our market. Indeed, European calculations (eonia based) have a 360 days basis, whereas the SEC calculations have a 365 basis. We do not see the rationale behind this proposed addition to the mandated sections of the MMFR reporting template, which is a regulatory template meant to ensure European regulators on the compliance with the European MMFR. Also, it should be reminded that yield calculations are bond markets oriented and they are less adapted to money markets, where the performance is a better return calculation. Yield calculations are too sensitive for money markets, i.e. they fluctuate too much in a very short timeframe.

On page 121, we propose to retain only those indicators that are of real use, that is only the first range as follows:

YTD, 1M, 3M, 1Y. Delete all other sections on this page.

<ESMA_QUESTION_MMF_10>

11. : Do you agree with the proposed way of reporting the yield of the MMF? If not, could you indicate what would be the more appropriate way to report yield in your views? Do you think the 7-days gross yield should be reported for each week of the reporting period? If not, what should be the appropriate frequency of reporting on this item?² Do you think that the calendar year performance and yield could be calculated at (sub)fund level and at share class level? Which difficulties do you identify while doing so? At which frequency should it be reported?

<ESMA_QUESTION_MMF_11>

No, AFG totally disagrees with the inclusion of the sections on the yield calculations on page 120.

We would like ESMA to delete all sections on page 120. These calculations are too costly. In addition, they are not required and they are not adapted to our market. Indeed, European calculations (eonia based) have a 360 days basis, whereas the SEC calculations have a 365 basis. We do not see the rationale behind this proposed addition to the mandated sections of the MMFR reporting template, which is a regulatory template meant to ensure European regulators on the compliance with the European MMFR.

² in order in particular to build meaningful time series to be used for understanding the activity of a fund and for analysis purposes.



Also, it should be reminded that yield calculations are bond markets oriented and they are less adapted to money markets (where the performance is a better return calculation). Yield calculations are too sensitive for money markets, i.e. they fluctuate too much in a very short timeframe.

On page 121, we propose to retain only those indicators that are of real use, that is only the first range as follows:

YTD, 1M, 3M, 1Y. Delete all other sections on this page.

<ESMA_QUESTION_MMF_11>

12. : Which type of measure would you suggest using to report the quantified outcome of the credit assessment procedure?

<ESMA_QUESTION_MMF_12>

AFG does not recommend ESMA adding to the MMFR requirements, especially with regards to credit assessment, where standardisation is not useful.

MMFR requires to report the outcome, not the “quantified” outcome of the internal credit quality assessment procedure. What would be the benefit of obliging to report a partial and meaningless result based only on quantitative analysis (which is part of a larger assessment process)?

Each manager formalises its output and its own credit assessment process and criteria.

<ESMA_QUESTION_MMF_12>

13. : With respect to reverse repurchase agreement, do you agree that the information requested is appropriate? With respect to repurchase agreements, do you think the value of cash received should be reported as a breakdown per investment purposes, i.e. liquidity management or investment in assets referred to in Article 15(6)? (given the information on the amount of cash received as part of repurchase agreements that is also requested). What should be the appropriate frequency of reporting on this information? Do you think the value of unencumbered cash should be reported as a breakdown per country where the bank account is located and currency? (given the information on deposits that is also requested)

<ESMA_QUESTION_MMF_13>

The reporting timeframe is set by MMFR. There is no need to foresee a different timeframe for the cash received as part of repurchase agreements.

On page 119, the section A.4.10 is not useful, as “unencumbered cash” is a valuable information in the case of a hedge fund, not a MMF.

<ESMA_QUESTION_MMF_13>

14. : Do you think the information on the investor ‘lock-up’ period in days (report asset weighted notice period if multiple classes or shares or units) is relevant in the case of MMFs (this information is included in the AIFMD reporting template)?)? Do you agree with the proposed way to report stress tests?

<ESMA_QUESTION_MMF_14>

Lock-up periods for MMFs are highly hypothetical... We would stick to the MMFR requirements.

Our members insist on the fact that the reporting requirement should be strictly limited to what is expressly foreseen in the level 1 text.



The quarterly report foreseen in Article 28 should not be “reproduced” within the reporting template. The latter should only point out whether the stress tests conducted in the reporting period have evidenced any vulnerability that had to be reported.

<ESMA_QUESTION_MMF_14>

15. : Do you identify other type of information that should be included in the requested information in the reported template? What would be in your view the consequences in terms of costs of the proposed options for the reporting template? Do you agree with the assessment of costs and benefits above for the proposal mentioned in the CBA (Annex III) on the reporting template? If not, please explain why and provide any available quantitative data on the one-off and ongoing costs (if any) that the proposal would imply. Do you have specific views on the potential use of the ISO 20022 standard?

<ESMA_QUESTION_MMF_15>

We would like to recall that quasi all MMFs are UCITS, so they are not currently massively leveraging on the AIFM template.

On page 121, we propose to retain only those indicators that are of real use, that is only the first range as follows:

YTD, 1M, 3M, 1Y. Delete all other sections on this page.

Our members would insist on giving information at the level of the fund whenever possible. For performance figures, the most representative share class should be used to give meaningful information in the context of MMFR requirements.

Regarding the assets held by the MMF our members have the following remarks:

- (1) (A.6.5 and A.6.35) CUSIP is not a free data and should not be mentioned in a EU regulation; the ISIN should be the reference and an alternative could be provided if necessary with a field defining the source.
- (2) According to the LEI project, the LEI should give access to the group to which an issuer belongs; there is no need to ask for the identification of the head company (A.6.10 and 11, 6.48)
- (3) Clarifications will be necessary for the determination of maturity date of non bullet issues (A6.15 and 50)
- (4) ESMA should build on the current works for the identification of products through their UPI (A6.32);

Regarding the liabilities side, we totally agree with ESMA acknowledging that that information on real beneficial owners is not always known by the asset manager and the fund.

Page 137 / Liabilities section : our members specify that the marking of orders by intermediaries is still not a reality in France and need regulatory push to be effective. There is no obligation currently for them to mark orders and some intermediaries are even invoking confidentiality reasons. Thus, some technical difficulties still exist so as to obtain a look-through view on investors' side.

AFG has always supported that knowing its customers is important in MMF business and our members perform such an analysis. However, there should be clear that what the legislator asks is linked to the objective of avoidance of “run” risk, not linked to the means to achieve this. Indeed, in most cases the top 5 investors will be identified and their pattern known. Knowing its customer may be efficiently performed without being able to treat every cent invested through tracking down the ultimate beneficiary that invests through several channels. We would like to recall the importance of maintaining some proportionality of means, as long as intermediaries are still reluctant to give the detailed information. For the avoidance of doubt, we wish intermediaries to give us detailed information and hope this will be a reality in the future (maybe through a regulatory push towards them).



A materiality criterion should apply to the breakdown per country and only significant holdings should appear.

Page 138 / section A.7.3. add private banking to the investor groups.
<ESMA_QUESTION_MMF_15>

16. : Do you agree that the abovementioned references to EU/international standards are relevant in the context of the issuance by ESMA of guidelines on stress testing of MMFs? Do you identify other pieces of EU/International law that would be relevant in view of the work on ESMA guidelines on stress testing of MMFs?

<ESMA_QUESTION_MMF_16>

AFG would like to recall that MMFs are not managed through stress tests. There should be no fail/succeed logic. Otherwise, it would be useless, everyone failing or succeeding...Stress tests are a useful check tool and in that objective their design should enable a meaningful assessment that captures potential fragilities/risks at time T.

Our members think that stress tests should only be a tool that helps risk managers to assess a fund against essential variables for a MMF (interest rate, spread, redemptions, liquidity). No specific level of stress test should be chosen/imposed. This assessment depends on each fund's characteristics at moment T (portfolio, liabilities, market context).

We believe stress test results in the reporting should be a text item because it will represent the assessment of the stress test in the particular context of the fund. The figure result of the stress test without the assessment is of little interest and may be counterproductive if comparisons are made. It is meant to be an assessment tool, not a comparison tool, nor a management tool. Otherwise, there is also the risk of mimetism of behaviours (which ultimately may lead to systemic risk) if selected output levels are asked and reported. This would be useless and counterproductive, in other others it would be like trying to amend an issue where no problem was detected.

Proportionality should apply with regards to stress tests, as the objective is to apply a tool that is meaningful. For instance, we deem that aggregated stress tests will find very few cases where their application is meaningful.

As regards the application date of the draft guidelines on stress tests (page 151), it should be mentioned that these Guidelines apply with the same timeframe as the MMFR. Indeed, the MMFR applies for new funds 12 months after the entry into force, but the existing funds have 6 more months to prepare compliance. ESMA should be clear that it does not create prior application dates than the MMFR itself.

<ESMA_QUESTION_MMF_16>

17. : Do you have specific views on the interpretation of the requirements of Article 25(1) of the MMF Regulation on the meaning of the abovementioned "effects on the MMF"?

<ESMA_QUESTION_MMF_17>

AFG members do not support either the idea (mentioned in §205b) that volatility would be a significant item when stress testing MMFs. Our members think that effects on price (NAV), liquidity ratios, the ability to meet redemptions and the valuation buffer (CNAV and LVNAV) are meaningful.

Our members prefer ESMA referring precisely to the liquidity ratios foreseen in the MMFR and not use less precise wording as "bucket" of liquidity, which has no legal meaning within MMFR.

<ESMA_QUESTION_MMF_17>

18. : Do you have views on the specifications of the following criteria:

- level of changes of liquidity of the assets with respect to Article 28(1)(a),

- levels of changes of credit risk of the asset with respect to Article 28(1)(b),
- levels of change of the interest rates and exchange rates with respect to Article 28(1)(c),
- levels of redemption with respect to Article 28(1)(d),
- levels of widening or narrowing of spreads among indexes to which interest rates of portfolio securities are tied with respect to Article 28(1)(e),
- identification of macro-systemic shocks affecting the economy as a whole with respect to Article 28(1)(f)? (how would set the calibration of the relevant factors in the case of the Lehman Brothers' event, and the two proposed scenarios A and B? With respect to scenario B mentioned above, do you think the duration of 12 months is appropriate?)

<ESMA_QUESTION_MMF_18>

On page 157, regarding the section "Non-exhaustiveness of the factors mentioned in the following sections 5.2 to 5.7 below" we disagree when the first sentence mentions that the factors set out in the following sections 5.2 to 5.7 are **minimum** requirements. We propose to replace "minimum" by "**illustrative**", because the objective is not to set out new standardised requirements throughout the stress test tool, but to apply stress tests that enable a meaningful assessment to the specific fund so as to capture the potential fragilities/risks at time T.

Our members think that macroeconomic criteria are redundant because they are ultimately expressed as basic parameters that affect MMFs (spread, interest rates...).

<ESMA_QUESTION_MMF_18>

- 19. : Are you of the view that ESMA should specify other criteria that should be taken into account? If yes, which ones?**

<ESMA_QUESTION_MMF_19>

No other criteria. Besides, our members think that macroeconomic criteria are redundant because they are ultimately expressed as basic parameters that affect MMFs (spread, interest rates...).

<ESMA_QUESTION_MMF_19>

- 20. : Are you of the view that other topic should be covered in the ESMA guidelines under the requirements of Article 28 of the MMF Regulation?**

<ESMA_QUESTION_MMF_20>

AFG believes that the stress test tool should be applied with the view of efficiency regarding the objective of checking potential fragilities of a fund in particular while limiting IT and governance costs.

Stress tests should in no case become a new constraint beyond those issued from several years of negotiations in the MMFR' text.

<ESMA_QUESTION_MMF_20>

- 21. : Do you agree with the assessment of costs and benefits mentioned in the CBA (Annex III) on the different options on the Guidelines on stress tests? If not, please explain why and provide any available quantitative data on costs (if any) that the proposal would imply.**

<ESMA_QUESTION_MMF_21>

We believe stress test results in the reporting should be a text item because it will represent the assessment of the stress test in the particular context of the fund. The figure result of the stress test without the assessment is of little interest and may be counterproductive if comparisons are made. It is meant to be an assessment tool, not a comparison tool, nor a management tool.



We think that the stress tests tool is one item that risks to be costly to implement. The objective should be to stick to the way this tool is the most meaningful and limit costs of implementation.

To be meaningful, we thus believe the manager should be able to analyse on a case by case basis and that there should only be illustrative examples, but no imposed level of stress test. The reporting should only mention stress test results as a text item.

<ESMA_QUESTION_MMF_21>