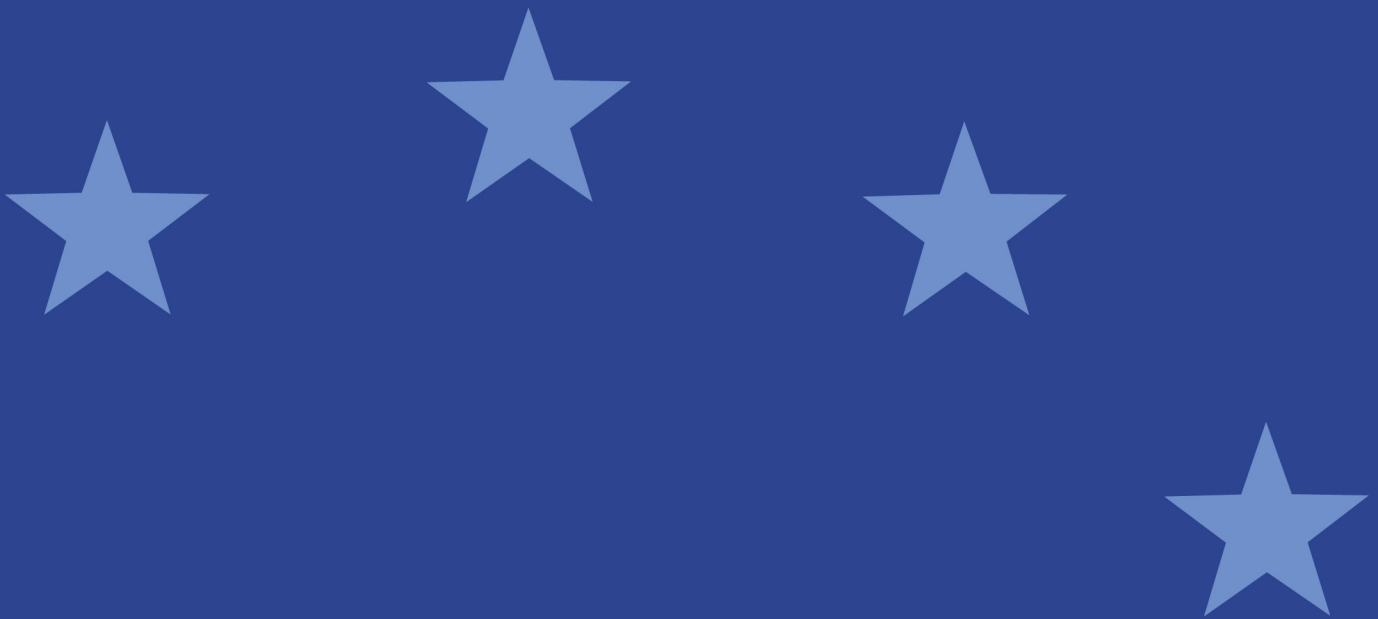




European Securities and  
Markets Authority

# Response form for the Consultation Paper on the EU Money Market Fund Regulation – legislative re- view





## Responding to this paper

ESMA invites responses to the questions set out throughout this Consultation Paper and summarised in Annex 3. Responses are most helpful if they:

1. respond to the question stated and indicate the specific question to which they relate;
2. contain a clear rationale; and
3. describe any alternatives ESMA should consider.

ESMA will consider all comments received by **Wednesday 30<sup>th</sup> June 2021**.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Your input - Consultations'.

### Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the steps below when preparing and submitting their response:

4. Insert your responses to the consultation questions in this form.
5. Please do not remove tags of the type <ESMA\_QUESTION\_MMFR\_1>. Your response to each question has to be framed by the two tags corresponding to the question.
6. If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.
7. When you have drafted your response, name your response form according to the following convention: ESMA\_MMFR\_nameofrespondent\_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA\_MMFR\_ABCD\_RESPONSEFORM.
8. Upload the form containing your responses, in Word format, to ESMA's website ([www.esma.europa.eu](http://www.esma.europa.eu) under the heading 'Your input – Open consultations' → 'Consultation on EU Money Market Fund Regulation – legislative review').



### **Publication of responses**

All contributions received will be published following the close of the consultation, unless you request otherwise. If you do not wish for your response to be publicly disclosed, please clearly indicate this by ticking the appropriate box on the website submission page. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. 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 not to disclose the response 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](http://www.esma.europa.eu) under the heading '[Data protection](#)'.

### **Who should read this paper?**

This document will be of interest to (i) MMF managers and their trade associations, as well as (ii) institutional and retail investors (and associations of such investors) investing in MMF.

## General information about respondent

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

## Introduction

**Please make your introductory comments below, if any:**

<ESMA\_COMMENT\_MMFR\_1>

Money markets are key short-term financing markets and money market funds are major investment vehicles in France. At the end of December 2020, the net assets of French MMFs amounted to € 371,5 bn. They are all managed as VNAV (Variable NAV) funds, and they make the bulk of Euro-denominated MMFs throughout the EU. These MMFs are thus financing European issuers in the sole EU currency. As of end of December 2020, 44% of the total € 1.4 trillion of MMFs domiciliated in Europe were Euro-denominated MMFs.

As two introductory comments relating to their **main conclusion** of the COVID-19 crisis episode regarding French VNAVs, AFG's members would like to state that:

- 1- Unlike the 2008 episode, no issue is to be reported linked to the composition of the portfolio, especially in terms of the quality of assets; funds are sane and resilient in their construction and composition. MMFR increased funds resilience and proved to be efficient.
- 2- Exogenous shock to money markets: As the sanitary Covid-19 crisis took in March a global dimension and impacted both real economy and financial markets, money markets underwent a sudden series of brutal imbalances where:
  - many corporates withdrew their money (from credit lines, deposits and MMFs) to face a brutal drop in their revenues due to the economic quasi shutdown triggered by the pandemic
  - in consequence, MMFs stopped purchasing MMIs and requested bids from the banking system to buy some of their holdings in order to rebuild their cash buffers
  - eventually, banks – already impacted by their corporate clients' funding requests - could not anymore absorb these flows, thus concentrating the liquidity stress, in a context that got worse with the looming quarter end.

AFG would like to share some fundamental elements of analysis before diving into the MMFR related questions and options as proposed in this consultation paper.

**Freeze of the Underlying market:** MMFs are dependent on the well-functioning of the underlying market (money markets) to operate. They are an important player of this market, but not the only one. Many other actors are part of this ecosystem and are investing in money market instruments CDs, CPs, short term govies, short term credit bonds, reverse repos, etc... we cannot assume that MMF can keep providing liquidity whilst the functioning of the underlying market is totally impaired. The process of market liquidity evaporating concerned a large spectrum of assets, at some time even "the highest quality government assets" as explained by the Bank of England<sup>1</sup>: *"The sharp pickup in asset price volatility, as markets struggled to process the news about the onset of the virus, increased margin calls – forcing funds to unwind some of*

<sup>1</sup> Seven Moments in Spring: Covid-19, financial markets and the  
See Bank of England's balance sheet operations, [Speech](#) given by Andrew Hauser, Executive Director, Markets

*their basis trades, selling USTs to generate cash. Initially these trades were conducted quietly. But as time went on, their speed and size – running to hundreds of billions of dollars – began to overwhelm dealers’ intermediation capacity, which was itself shrinking as the result of rising volatility and the operational challenges of remote working. Rising transaction costs and the breakdown in arbitrage relationships began feeding on themselves: a classic ‘doom loop’ (Chart 2).”...“What was unique about this process, and potentially disastrous for the financial system, was that even the highest quality government assets were not good enough. Just like high street companies facing evaporating revenues, market participants needed cash. In the days that followed, this so-called ‘dash for cash’ would spread to every corner of the global financial system.”* Back to some shutdown episodes in the US, even US government MMFs were not able to provide liquidity in case of sharp redemptions due to the absence of liquidity in the Tbills market.

**PEPP/ CSPP:** we recall the usefulness of an efficient coordination between the industry of MMFs and authorities (including central banks: whether national or European), especially in times of crisis. It should be reminded that before the COVID-19 crisis, Commercial Papers were the only high quality debt market’s component not included in the ECB asset purchasing programmes. The PEPP has been implemented in a stressed market and with lengthened delays because of the national central banks’ multiplicity and the numerous specificities of the trading channels. This implementation might have given the impression of vulnerability, whereas in reality, money market instruments had just not been yet included in the QE programmes that were open since years to the other fixed income instruments on the longer buckets of the curve. MMFs are players in money markets, where ECB and national central banks have the power of intervention to obtain orderly functioning markets (as well as for market issuance or secondary markets with the necessary continuous presence of intermediation, ie market banks). In particular, ECB programs like PEPP, CSPP are more than welcomed to restore confidence in the market. The announcement of PEPP had immediate effects in terms of reopening of market quotes. **Suggestion:** Even if each crisis is different, we think however that the experience of this crisis should be useful to lead to **more reactivity and transparency on the operational details** (as well as to trigger a program or to halt it when the market has taken over). It is useful to identify the ultimate beneficiaries of the program by category and be able for instance to **dedicate a part of such a program to MMFs**, as they are fully part of this market. The Fed support came in to offer a liquidity window to Prime US MMFs, knowing that there was no doubt on the assets’ quality. Also, the improvement of the market sentiment by the announcement of the PEPP on March, 18th came quite late vis a vis the early signs of the crisis visible already in late February/early March through signs of liquidity tensions and spread widening for instance. In current markets, spikes of volatility and market sell off are very sharp and quick; 18 days before intervention seems too long. We suggest a more thorough and real time monitoring of market indicators enabling, if needed, central banks’ action at earlier stages. We also suggest **more coordination between Central Banks** as well as more intensive sharing of common intelligence in order to **be able to use a same wide array of types of intervention**. While we fully understand Central Banks’s reluctance to intervene and their wish to dismiss any belief that any intervention is granted in the future due to moral hazard issues, we also believe that ensuring the good functioning of markets is in their remit.

Regarding possible **behavioural “run” effects** as described by the Fed paper [“Runs and Interventions in the Time of COVID-19: Evidence from Money Funds”](#), it is easier for VNAV funds not to be prone to such effects, which have a valuation as close as possible to markets’ levels to avoid any incentivisation to a first mover advantage because of a constant NAV type cliff effect. We question the fact that Prime and LVNAV funds’s “fees and gates” mechanisms would be solely responsible for a possible cliff effect. They were precisely added to avoid the valuation gap to the constant NAV, identified as a source for a first mover advantage.

**Precise calendar of market freeze and fund net outflows** : before any conclusion is drawn, a subtle analysis should be done by type of money market funds (LVNAV, VNAV) but also other types of funds (including ETFs) and by region... regarding the net outflows and the timing at which it took place, in parallel to the market freeze. Our view is that French VNAV funds did not experience anticipated outflows, but only redemptions linked to the need for cash due to the pandemic and the urgent need for financing working

capital needs. These were due to massive drops in revenues, due themselves to a generalized lockdown especially for corporates<sup>2</sup> which was very specific in that crisis.

**Need for cash:** French VNAV MMFs are subscribed mainly by institutional investors. At quarter end for instance, their outflows are generally important and are dealt in anticipation in a business-as-usual manner by asset managers. During the crisis, the need for cash expressed by some of them, especially corporates, amounted to high levels of redemptions from MMFs. MMFs are liquid funds that were used in priority compared with other types of assets, even if the redemption was high almost in all asset classes. Other European countries, where MMFs were not part of the funds' spectrum, suffered outflows from other types of funds. If the general COVID 19 crisis (which is a sanitary crisis and in no way inherent to money markets) would have continued, the need for cash would have been expressed also by redemptions in other asset classes. We would thus like to highlight that it should be recognized that it is also "normal" to expect that MMFs can experience earlier redemptions compared to other asset classes and where a major shock arises, it is expected that risks are re-correlating and all markets suffer alike. This is also why, **while acknowledging the important economic role played by MMFs, regulators' reactions should not over-emphasize MMFs' case in this global crisis.** Like the French AMF explained: *"The re-correlation of these asset prices in the event of a major shock illustrates the limits of the benefits of diversification. Central banks' intervention was ultimately able to restore the functioning of the market for money market instruments, where both issuance and trading were able to resume at the same time. Since French money market funds have in the meantime seen the return of net inflows, their investment in the most liquid and short-term assets has substantially increased as a precautionary measure."*

**Regarding the MMFR options mix, AFG thinks that :**

- ***in priority, underlying markets should benefit from more transparency and smoother functioning***
- ***the review of MMFR should only be addressed if and where there are targeted needs***
- ***liquidity ratios should be countercyclical for all types of MMFs***
- ***investors should be further protected in the case of a highly infrequent severe stress by a form of antidilution mechanism (preferably under the form of a definite % liquidity fee that might be triggered in a coordinated way under the supervision of the regulator)***
- ***KYC should be further refined internally***
- ***reportings could be also directly sent to ESMA and frequency of the necessary items could be increased in times of crisis***
- ***no intervention of central banks should be seen as granted as central banks must keep playing their role of last resort support when required by highly stressed market conditions***

<ESMA\_COMMENT\_MMFR\_1>

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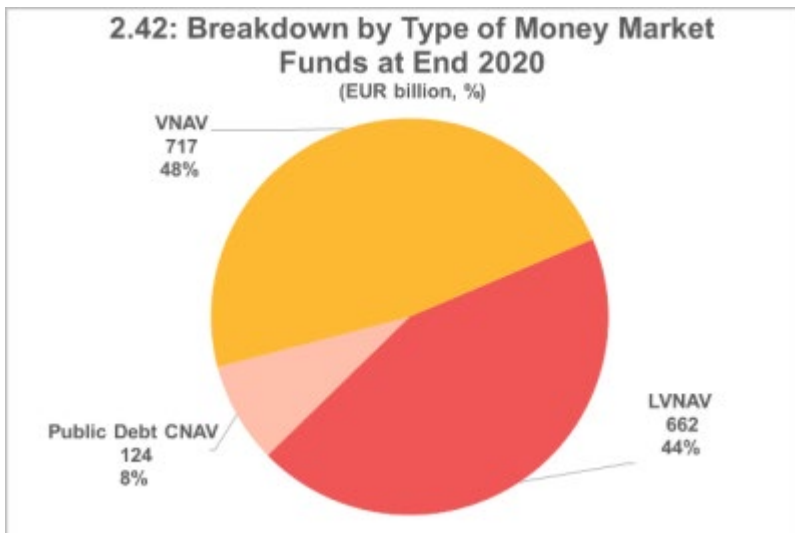
<sup>2</sup>AMF: "they were faced with significant redemption requests: about €50 billion for French funds, i.e. as much as during the 2007 crisis, but within just two weeks this time (versus a semester in 2007). Non-financial companies contributed to this exit move in order to meet their cash requirements, and also because of a probable preference for bank deposits seen as safer in this crisis. This dash for cash explains why all assets including gold saw their value decline in the depths of the crisis."

1. i) Do you agree with the above assessment of the difficulties faced by MMFs during the COVID-19 March crisis? Do you agree with the identification of vulnerabilities? ii) What are your views in particular on the use of MMF ratings by investors? Are you of the view that the use of such ratings has affected the behaviors of investors during the March crisis?

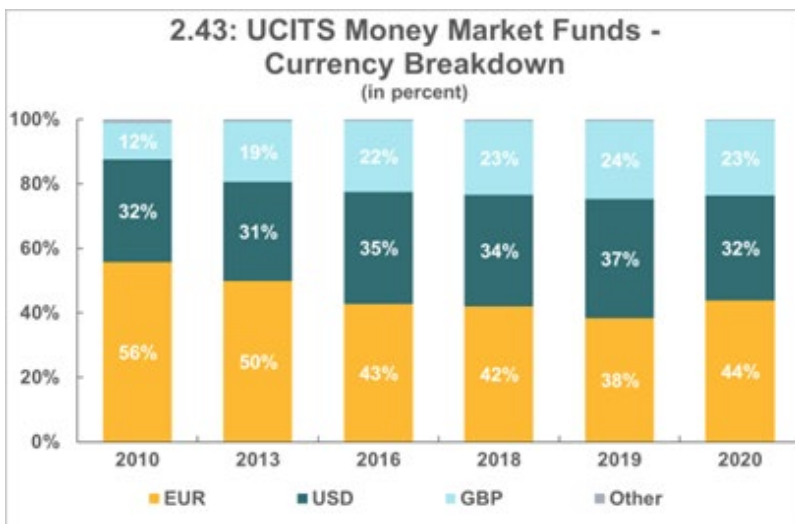
<ESMA\_QUESTION\_MMFR\_1>

AFG totally agrees with ESMA that Money market funds (MMFs) are key players in the financial system with a proven economic role.

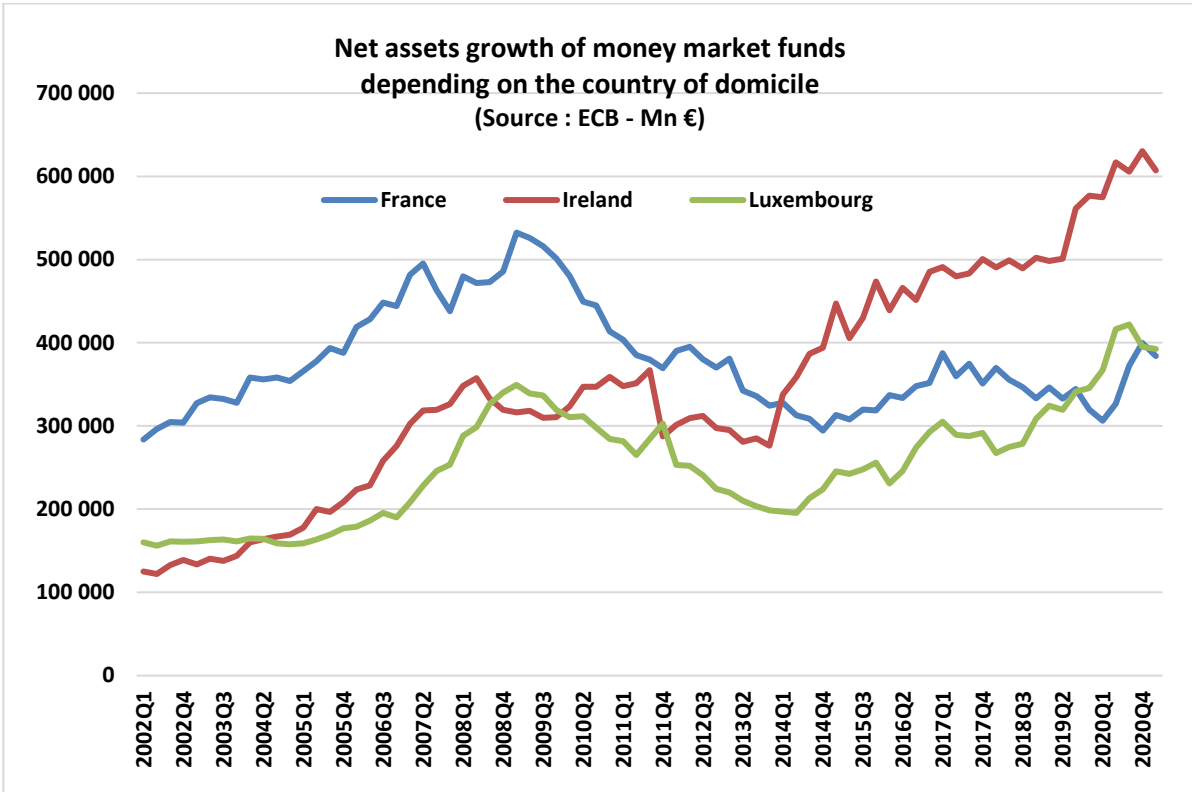
More specifically, in France, money markets are key short-term financing markets and money market funds are major investment vehicles. At the end of December 2020, the net assets of French MMFs amounted to € 371,5 bn. They are all managed as VNAV (Variable NAV) funds, and they make the bulk of Euro-denominated MMFs throughout Europe. As of end of December 2020, 44% of the total 1.4 trillion of MMFs domiciled in Europe are Euro-denominated MMFs. At the of end 2020, we see a solid increase in MMF net assets in Europe compared to EUR 1.3 billion at the end of 2019.



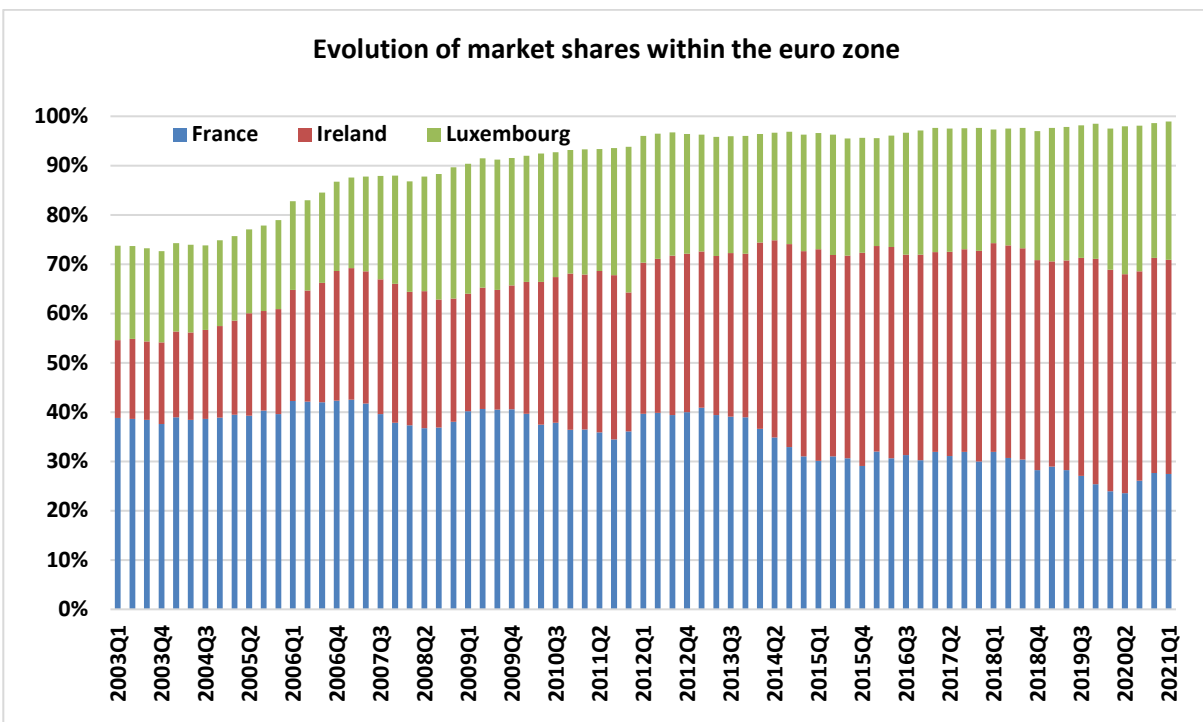
Source : EFAMA



Source : EFAMA



Source: AFG

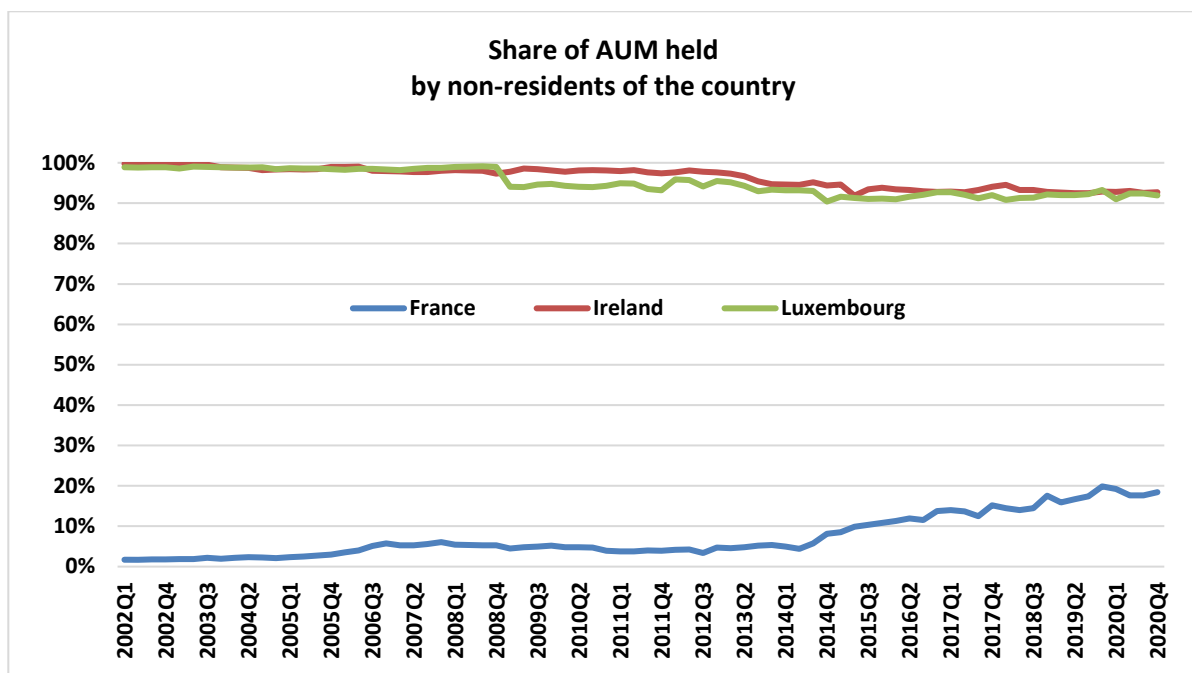


Source: AFG



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. MMFs constitute an appreciated alternative for cash management allowing investors to diversify their counterparty risk. MMFs are easy to use and offer same day liquidity.

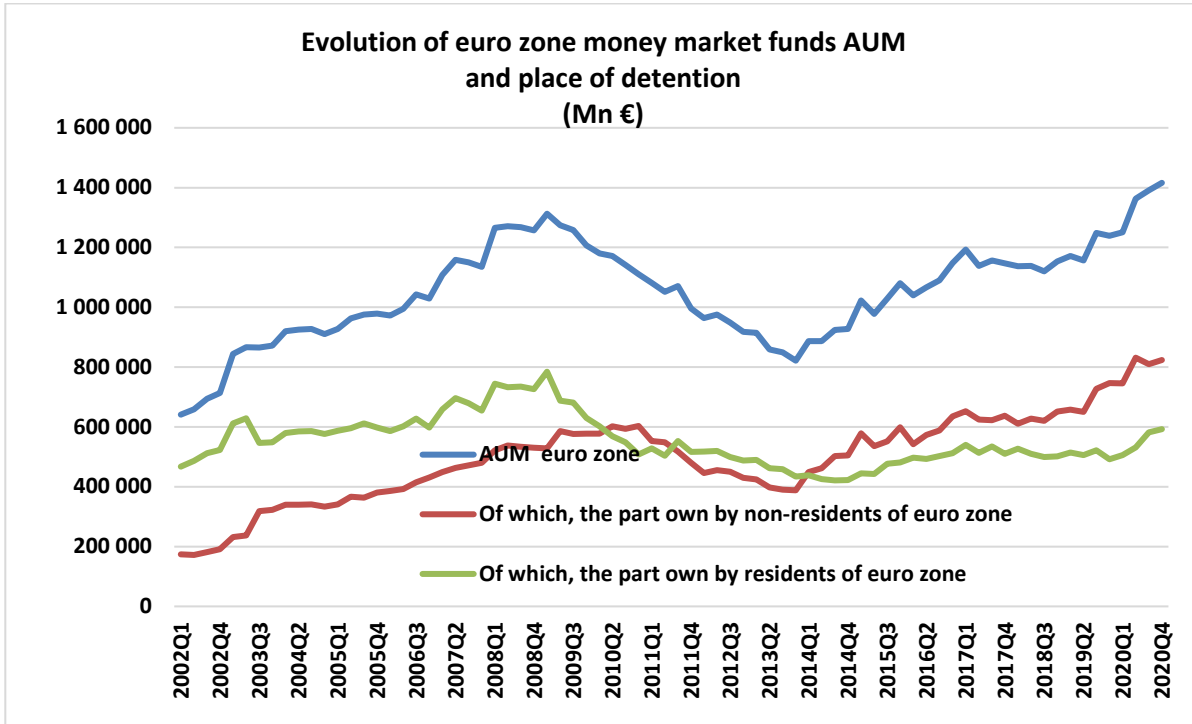
Regarding investors, AFG would like to dig further into the ESMA's statement that says that "around 53% of MMF shares are held by foreign investors". The situation is more diverse and evolving between domiciliation centres. The chart below shows the part of non-country resident holdings in MMFs. French MMFs are thus having less than 20% of non-resident investors.



Source : AFG

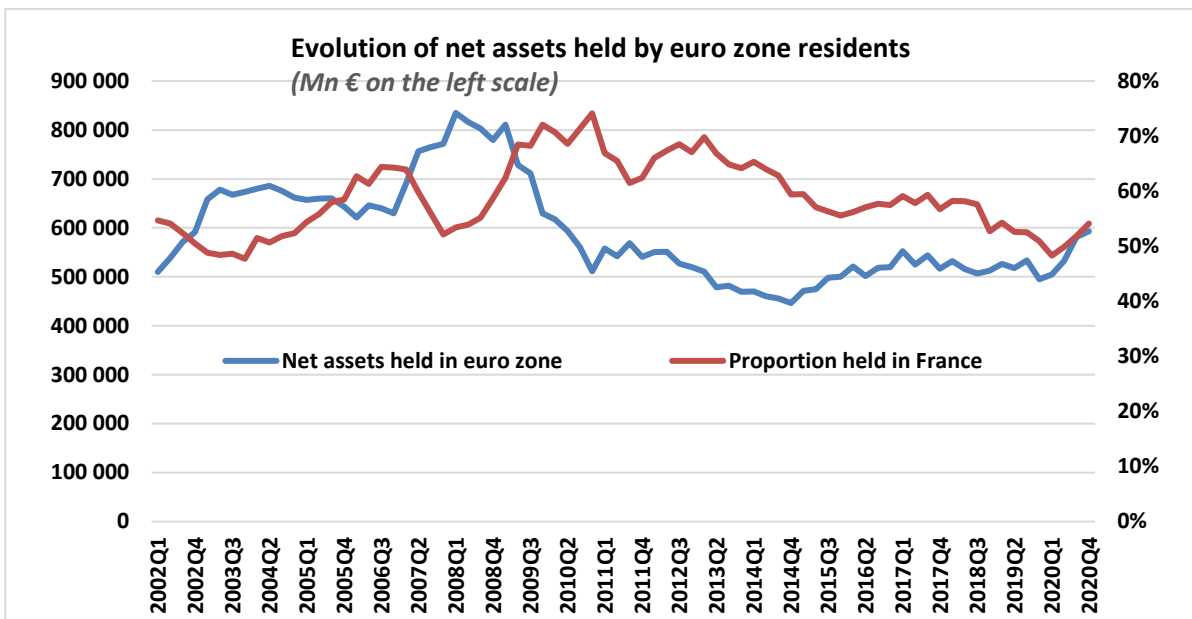
The following chart shows that the non-euro resident part is growing for euro-zone MMFs.

As for other types of funds, the chart shows that France is not only a domiciliation and management centre for MMFs too, but also an investors' region which helps managers knowing their investors and investors knowing in detail where they place their monies. We would like to recall that French MMFs are mainly held by institutional investors. In general, AFG members' investors do not require rating of MMFs, they rather conduct themselves in-depth due diligence on the funds they invest in.



Source : AFG

A third graph shows that at the end of 2020, nearly € 600bn were held in units / shares of MMFs by residents of the euro zone, of which French residents hold a little more than half (320 billion € or 54%). So, in terms of the distribution of money market funds within the euro zone, France is by far the leading country with more than 50% market share. Understanding and anticipating as much as possible investor behaviour by a close link with a funds' main MMF unit holders has always been key to French asset managers.



Source : AFG

AFG agrees with ESMA regarding the fundamental statement that *“The liquidity of a MMF depends on the liquidity of its assets, which is mainly composed of cash and negotiable money market instruments.”* Nevertheless, AFG believes that the exogenous COVID-19 crisis did not reveal vulnerabilities on MMFs. MMFR has done the job and increased MMFs resilience. In March 2020, the short-term funding markets, including in € currency, came under sharp stress amid growing economic concerns related to the COVID-19 pandemic. The 2020 crisis was not a credit market stress, nor a stress linked to funds’ structure or asset quality, but a liquidity market stress stemming from a sanitary crisis, thus creating an exogenous shock to MMFs.

We agree that the secondary market of most money market instruments (e.g. CDs and CPs) is generally not very active, but would like to recall that it works very well, and CP and CD are very liquid instruments in normal market conditions. VNAV funds, as any other MMFs, generally tend to have a buy and hold philosophy. However, it is not uncommon, for various reasons, to sell some holdings before maturity with no issue in terms of pricing (nor timing to sell the entire position). The March stressed conditions were particularly challenging with regards to counterparts’ ability at some points in time to act as dealer while continuing to comply with their sectoral regulatory limits. The possibility to temporarily relax some banking ratios helped diminishing the stress in the market.

It is also important to stress that this liquidity crisis was particularly difficult to anticipate: the major central banks were implementing very accommodative monetary policies (QE, TLTROs, very low interest rates...), excess liquidity was ample in the financial system, banks’ balance sheets’ quality was supposed to be restored, CPs and CDs were ECB eligible instruments and were of high credit quality and of short maturity... It was quite a surprise to realize that their liquidity had suddenly vanished without any early-warning signs.

We also agree with ESMA on the need to remediate the lack of transparency of the primary and secondary markets of certain short-term instruments.

<ESMA\_QUESTION\_MMFR\_1>

**Q2 i) Do you agree with the above assessment on the potential MMF reforms related to the review of the MMF Regulation? ii) What are your views on the abovementioned assessment of the interaction between potential MMF reforms and the behaviour of investors during the MMF March 2020 crisis?**

<ESMA\_QUESTION\_MMFR\_2>

**i) Do you agree with the above assessment on the potential MMF reforms related to the review of the MMF Regulation?**

AFG believes that MMFs were the “canary in the coal mine”, not the source nor an amplifying element of the crisis. AFG understands that the current consultation has two objectives: prepare the review clause of the MMFR and make suggestions related to the current international discussions around money markets resilience.

In this context, AFG is more inclined to comment the reform options that would touch upon all funds and less specifically on the LVNAV structure (less representative for the French MMF market, which is 100% of VNAV type).

AFG understands that reform suggestions are made with the view of enhancing the resilience of the markets and of the MMFs. We insist on the fact that the March event was a global pandemic issue that translated, among others, also into a liquidity crisis on the underlying markets. The short-term end of the financing was also caught into the crisis as there was a general dash for cash with little leeway on banking dealers to override their own regulatory ratios on a same issuer as well as a pricing difficulty for CDs/CPs in a larger context of zero rate QE assets market (and TLTRO) that generally results in market’s distortions and overpriced assets. Therefore, we urge ESMA to push for considering the real impacting solutions on the markets



themselves. This should be the first priority at both international and European level, as with or without MMFs, the money markets should function in an orderly fashion.

We cannot ask MMF to be liquid in isolation. As any other funds, MMFs cannot create liquidity ex nihilo and cannot be asked to keep functioning as normal when the underlying markets are frozen and securities cannot be traded. AFG would like to remind that, while some more resilience for MMFs might be a commendable goal, achieving total resilience regardless of the market conditions is meaningless. AFG will thus strive to be constructive, within the boundaries of what is meaningful for an investment vehicle that passes the return and the risk onto the investors, these investors being clearly aware of the nature of the fund and the fact that no implicit or explicit guarantee is attached to it.

Without surprise, AFG finds that some options are disruptive and are not compatible with the MMFR's spirit, namely the LEF or any other form of external support/guarantee. Indeed, an external guarantee (on a certain level of NAV or on the formula for a structured long-term fund, generally offered at certain definite times in the life of the fund), by an entity that is allowed to legally offer it to a fund, is very costly and makes a monetary strategy totally unviable. This mechanism also reinforces the idea that MMF are "guarantying" the value and the liquidity of their shares.

Some other proposals might seem to look like an additional step helping to increase the capacity to respond to redemptions, but in reality, we strongly think that ESMA should retain the current flexibility. AFG refers for instance to the suggestion to increase by regulation or to reshape the liquidity buffers, a proposal which to our eyes has higher drawbacks than advantages. To say it short, the adequate liquidity ratio that ensures to meet any redemptions at any time is 100% cash when the market is frozen or no further liquidity can be created via the selling of assets. The higher the "imposed" calibration, the higher the permanent industry-wide sterilisation of investee's monies. Retaining the possibility to individually increase these buffers on a fund-by-fund level above the "minimum regulatory" one, which is already the case and as demonstrated by fund managers during previous stress episodes, is the most efficient solution. Moreover, it is worth highlighting the fact that defining a priori what is (by essence) a liquid asset is particularly difficult and even short term government Bills that are deemed to be liquid have experienced periods of squeeze, volatility or illiquidity during episodes like the US shutdown, the euro zone break up or any other country specific issues (ie: Greece, Italy, UK...). Before imposing any additional buffer of so called "liquid assets", we should make sure that at any given time, these assets will not become the next source of stress.

This is not the case for the countercyclical feature of liquidity buffers, where AFG totally believes it is a necessity and agrees with ESMA. VNAV funds have already countercyclical buffers as no automatic trigger is linked to the ratios and MMFR rightly gives the right to go under the level as long as no new longer-dated investment is done. This is a very smart feature of MMFR, please keep it!

Regarding anti-dilution proposals, the devil is in the details. We propose to discuss the issue in the following sections.

To sum-up we do believe that MMFR has been a crucial move towards a much safer situation for MMFs. This key regulation was the result of long, tough, but eventually fruitful exchanges between MMF managers, regulatory bodies, European Parliament and EU Member States. It is unanimously admitted that the Covid 19 crisis was an unprecedented event that severely hit short term markets with a sudden drying-up of their liquidity. There are probably some rooms to clarify some articles of MMFR, notably the one covering the KYC, assuming that the more you know your clients' habits, behaviours, the better an MMF will be prepared to face the kind of redemption waves that occurred in March 2020.

When it comes to the necessity to mandate the resort to Liquidity Management Tools (LMTs), it is important to recall that MMFs are perceived as the most liquid vehicles among the whole spectrum of collective schemes. As such, it is very difficult to foresee how MMFs' users would react on the long run should MMFs be forced to impose tools like swing pricing or any anti-dilution levies.

In case of a widespread market crisis, if the triggering is solely left at the hand of the asset manager, it can be expected that no asset manager will dare to be the first to trigger such a traumatic weapon (as illustrated

during the Covid 19 crisis where no LVNAV MMF triggered any liquidity fees or gates. In situations of serious underlying market crisis coupled with an MMF investor base highly sensitive to accessing liquidity, deciding on a stand-alone basis to trigger such a mechanism might have consequences spreading beyond one fund or one manager. At the other edge, if macro-prudential, a key question would lie in the process and the governance of such a rule, that might be counterproductive. This discussion is meant to take all aspects into account, and in no case to avoid managers' responsibility. We recall that the bulk of redemptions were already dealt with before the ECB's intervention became effective. The industry managed this full-scale stress test and has already integrated lessons learnt from this unforeseeable episode.

**ii) What are your views on the abovementioned assessment of the interaction between potential MMF reforms and the behaviour of investors during the MMF March 2020 crisis?**

In order to assess the interaction between potential MMF reforms and the behaviour of investors during the MMF March 2020 crisis, it is important to understand how investors behaved. Investors needed cash to face their obligations like employee payrolls, paying suppliers, etc. while being confronted to the temporary halt of their activity and incoming revenues in a context of uncertainty on the duration of the crisis episode. For a short period of time, corporates were unable to place short term paper to finance themselves. In this context, they looked to draw cash from all sources available, redeemed from MMFs, used their credit lines, etc. MMFs are liquid funds that were used in priority compared with other types of assets, even if redemptions were high almost in all asset classes. The vast majority of our members observed no flight to quality from MMFs to other vehicles (no such trend from standard MMFs to short term MMFs or from MMFs to government paper).

French VNAV MMFs are subscribed mainly by institutional investors. At quarter end for instance, their outflows are generally important and fund managers are anticipating such a situation in a business-as-usual manner. During the crisis, the stringent need for cash expressed by some of them, especially corporates, added up to the quarter end outflows and amounted, in total, to high levels of redemptions from MMFs.

AFG asked its members to investigate further on the motivations of redeemers during the COVID-19 crisis. Responses cover 71% of the French MMF AUM in March 2020 and concern net redemptions from 15 March until 10 of April. On average, it confirms that the first categories to redeem were the non-financial corporations, insurance corporations and pensions plans.

Regarding the breakdown of investors by categories, these three types of investors are the top 3 holders of these MMFs (72%). Indeed, on the reported figures, on average, 31% of the AUM is held by insurance corporations, followed by pension plans/funds (21%) and non-financial corporations (19%).

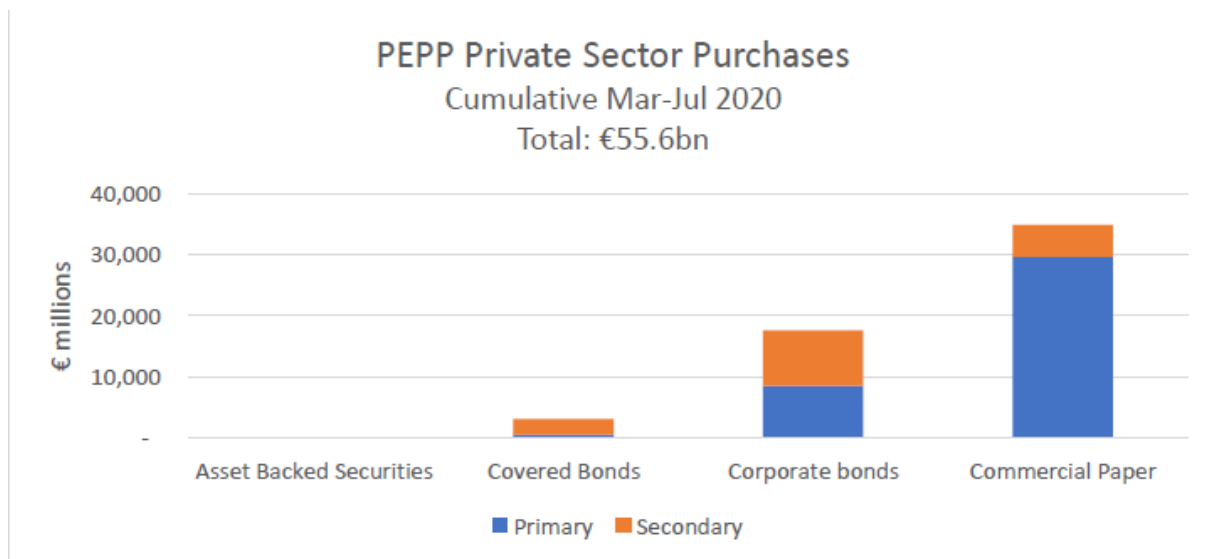
The main reported motivation for redeeming was the need for cash to meet immediate needs like payrolls, allowances, rents, pensions, etc. On average, these redemptions came mainly from French corporates (we recall that French MMFs are mainly invested by domestic players and to a lesser extent by foreign investors). Part of these French corporates had some anticipative redemptions, i.e. redemptions motivated by a need to hold cash to meet subsequent foreseeable needs (of payrolls, etc.) in case of the corporate's activity continued to be halted and if financial markets continued to be frozen.

Regarding a possible flight from Standard MMFs to ST MMFs or from MMFs to direct holding of govies, our members report that, for a small part of their assets, some international corporates switched from Standard MMFs to ST MMFs. Regarding potential redemption for margin needs or repo collateral, our members did not report this to concern the French market.

Our members would like to stress the beneficial role that played the European Central Bank and EuroSystem's intervention in the market to restore confidence and thus to help resume market functioning. Central Banks are in their legitimate role to seek to unlock market halt and restore confidence. As regards ESMA's question regarding the effects of the different policy options by currency, AFG would like to recall that the main three MMF currencies are EUR, GBP and USD, knowing that only one is in the remit of the ECB. While we fully understand Central Banks's reluctance to intervene and their wish to dismiss any belief that any

intervention is granted in the future due to moral hazard issues, we also believe that ensuring the good functioning of markets is in their remit.

The ECB intervention through CP acquisition was mostly concentrated on primary market and very little on the secondary market (and in the end, managers' report almost no CP acquisition from MMFs). [ICMA, citing ECB data, explains that](#): « As would be expected, purchases of ECP have predominantly been conducted in the primary market, while purchases of corporate bonds are more evenly split between primary and secondary.»

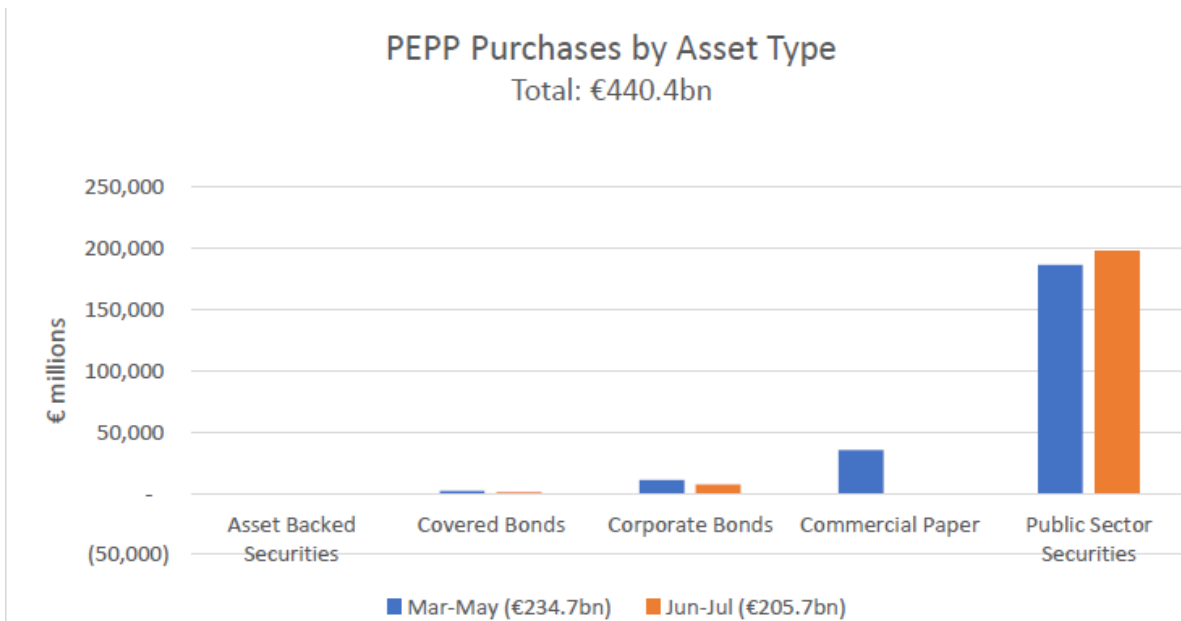


Source: ICMA analysis using ECB data

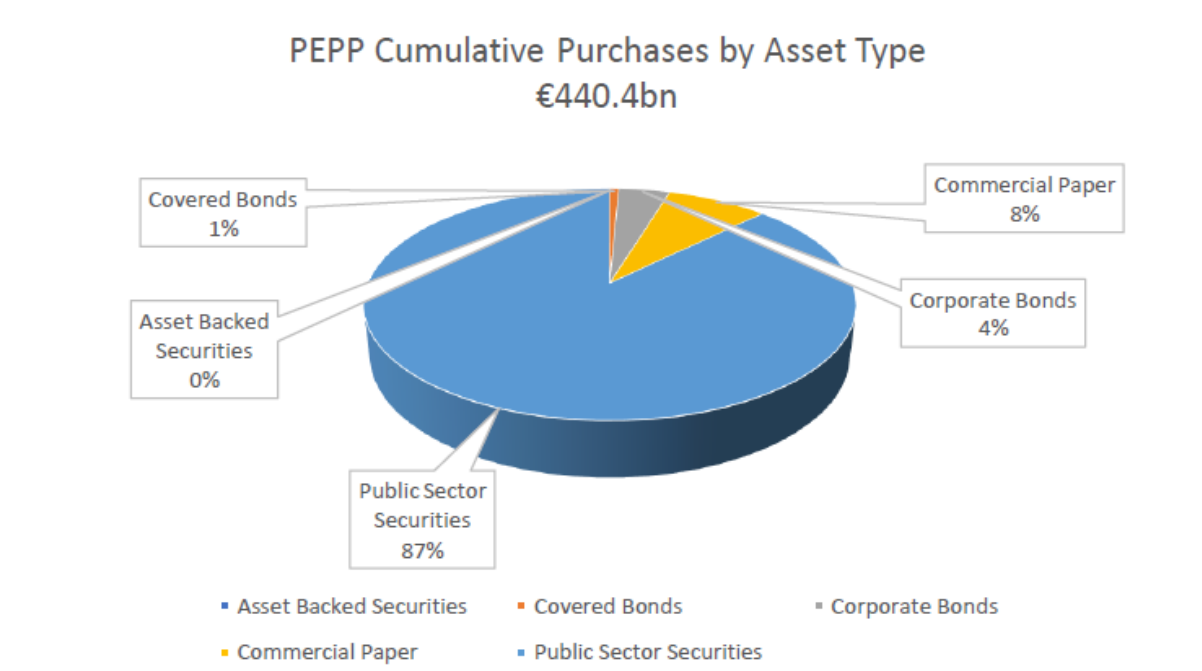
AFG agrees with the PEPP being a powerful tool, as the president of the ECB explains in [“One year of the PEPP: many achievements but no room for complacency”](#)  
 Blog post by Christine Lagarde, President of the ECB  
 22 March 2021”

- “The launch of the PEPP acted as a powerful circuit breaker. Market conditions stabilised before we bought even a single bond. Our commitment to do everything necessary within our mandate to support the euro area economy throughout the pandemic was understood and internalised by markets from day one.”

In order to fully grasp the effect of this event, AFG would also like to report the MMF managers' feedback. Although the programme was announced by the ECB on the 18<sup>th</sup> of March 2020, most of the redemptions had already taken place in French MMFs when the Eurosystem effectively started to implement its first acquisitions of CPs in the market. Indeed, at that time, an intervention on a market like the CP one was not that simple in operational terms, as the CP market was the only market where the ECB was not intervening through programs already put in place before the crisis (indeed, the ECB was already acquiring govies, corporate bonds, covered bonds and ABS through its QE programme). Now the learning curve on the operational circuits is more mature also on CPs.



Source: ICMA analysis using ECB data



Source: ICMA analysis using ECB data

Despite important redemptions, especially in March 2020 (-52.4 bn euros), French VNAV money market funds managed the outflows and proved resilient during the COVID crisis, as explained in the French AMF's 2020 Markets and Risk Outlook<sup>3</sup>. Inflows resumed as soon as May (total AUM in March established at 301

<sup>3</sup> [French AMF's 2020 Markets and Risk Outlook](#) : The main difficulties in fact appeared in the segment of money market instruments, where the market froze up, posing the problem of the valuation of money market funds at the very time when they were faced with significant redemption requests: about €50 billion for French funds, i.e. as much as during the 2007 crisis, but within just two weeks



mds€ and in June at 321 mds€ with net flows from the beginning of the year of +8 mds€). Net assets were back to a positive trend in less than 3 months.

Overall, over the first 8 months of 2020, inflows amounted to +48.6 bn euros. Unlike the 2008 episode, no complaint has been expressed by our clients about the composition of the portfolios, especially in terms of the quality of assets; funds are sane and resilient in their construction and composition. The post Lehman MMF reforms (MMFR, 2a7) made our members' funds more resilient.

AFG would like to stress that MMFs did not amplify the liquidity crisis. They acted more like buffers, slowing down the pace and impact of the crisis. Let us imagine no MMFs in the picture. What would have happened if all corporates, instead of investing in MMFs, had directly invested their cash in CDs or/and CPs and would have been unable to sell them to banks? This would have occurred in addition to massively drawing on their banking credit lines at the same time. Probably the system would have been even more under stress on the same type of actors tied by their Basel 3 ratios. AFG strongly believes that a system should be seen holistically and the spreading of risks between different actors is a good "global monetary risk management".

Borrowers, like treasurers or corporates, seem puzzled by the question regarding the alternative sources of short-term funding that are available to them. They appreciate the continuous detention of short-term paper (CDs and CPs) by MMFs, which constitute historically a very stable, reliable, diversified and less costly (vs banks) financing source. Replacing MMFs would simply transfer the activity and related risks mainly towards banks without retaining the benefits of the current diversification of sources. This hypothesis would prove to be suboptimal from a systemic point of view.

AFG would like to mention an [AMF recent study](#) – MAY 2021 - on the French MMFs and their composition (*Analysis of French money market fund portfolios during the surge in withdrawals recorded at the onset of the COVID-19 crisis*). In the context of the Covid pandemic, redemptions in French MMF were of similar magnitude to what the sector had experienced during the 2008 crisis, with €48.6 billion in redemptions between 12 and 30 March 2020. However, whereas the withdrawals took place over two quarters in 2008, outflows were concentrated over two weeks in 2020. Some investors needed to raise cash to meet urgent expenses or even to settle margin calls, while others carried out arbitrage transactions to secure their available cash.

The study also compares the main domiciliation centres with regards investor behaviour. It demonstrates, for example, that compared with other European jurisdictions, French MMFs are still characterised by a significant quarterly cyclicity of flows with redemptions before the end of each quarter. This cyclicity feature might have with the time passing by in latest years a tendency to be less regular, nevertheless. We understand from our members that it comes from institutional investors having regular benefit distribution needs (like pension organisms, unemployment and insurance organisms, etc) and that resort to planned investment and withdrawal with/from MMFs. During the pandemic, these organisms were affected and have drawn heavily on their monetary reserves. Indeed, MMFs with a higher proportion of institutional investors (corporates, pension and insurance organisms, other funds, etc) experienced higher redemptions than MMFs that had a higher proportion of retail investors through employee schemes for instance (who on the contrary, had continued to save through MMFs or banking book savings).

Finally, flows on MMFs are subject since some time now also to other considerations and side effects, in particular due to the conditions offered on bank deposits and saving books, or to massive injections of liquidity by the ECB. The global situation on assets pricing due to central bank interventions should also be considered to understand market behaviours and investor flows.

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this time (versus a semester in 2007). Non-financial companies contributed to this exit move in order to meet their cash requirements, and also because of a probable preference for bank deposits seen as safer in this crisis. This dash for cash explains why all assets including gold saw their value decline in the depths of the crisis.

The re-correlation of these asset prices in the event of a major shock illustrates the limits of the benefits of diversification. Central banks' intervention was ultimately able to restore the functioning of the market for money market instruments, where both issuance and trading were able to resume at the same time. Since French money market funds have in the meantime seen the return of net inflows, their investment in the most liquid and short-term assets has substantially increased as a precautionary measure.



<ESMA\_QUESTION\_MMFR\_2>

**Q3 Do you agree with the above assessment of the i) potential need to decouple regulatory thresholds from suspensions/gates and the corresponding proposals of amendment of the MMF Regulation ii) potential reforms of the conditions for the use of redemption gates? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_3>

AFG believes in general that automatic links in regulatory texts often induce side effects. This was the case with the automatic link to CRA ratings for instance in investment management regulatory texts and reducing overreliance needed the removal of such a link.

In general, AFG believes that the USD and GBP LVNAV and PDCNAV liquidity ratios should be able to be used, as a countercyclical instrument. At the same time, any side effects should be considered, and the removal of the tie should be investigated in the broader context of the MMFR and LVNAV/PDCNAV structure. The origin purpose of these measures was to try to frame/calibrate the liquidity issue for the CNAV structure to avoid being a forced seller of papers whose marked-to-market pricing deviated and in order not to crystallize losses. The final objective was avoiding breaking the buck or to implement other options too, disruptive for the industry and the market. The increased consumption of the bucket might also have a side effect consisting in the fact of potentially approaching faster the 20-basis collar constraint. As a result, it should be clarified how these safeguards are maintained in case of removal of these automated links.

<ESMA\_QUESTION\_MMFR\_3>

**Q4 i) Do you agree with the above assessment of the potential need to require MMFs to use swing pricing and / or ADL / liquidity fees and the corresponding proposal of amendment of the MMF Regulation (including the above list of corresponding potential benefits and drawbacks)? ii) If you are of the view that swing pricing might not be workable for certain types of MMFs, which instruments would you suggest as an alternative for these types of MMFs going forward? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_4>

Among the entire spectrum of policy options discussed here to enhance the resilience and the functioning of MMFs, AFG thinks that the anti-dilution option is worth taking the time to analyze. This option is not easy to calibrate and operate, the devil is in the details!

Anti-dilution mechanisms are efficient LMTs which have proven their efficiency during the COVID-19 crisis when applied to Fixed Income funds for instance. Among the benefits, AFG notes: 1/educational effect on investors 2/bears a less traumatic effect than suspending or gating a fund 3/ensures a continuous, well-functioning redemption management by ensuring an equal and fair treatment of a fund's shareholders 4/less stigma to implement, compared with gates 5/can be deployed under a rule-based format and can avoid a "first-mover advantage" phenomenon. AFG believes that liquidity fees are operationally easier to implement than swing pricing and seem more compatible with same-day liquidity, a feature of VNAV MMFs highly appreciated by investors. In addition, liquidity fees are already known. They are in practice for some MMFs as they are inserted in the European regulation for the LVNAV and PDCNAV structures.

Depending on the appropriateness of the criteria and of the calibration, this might be one option to look at. First, which objective is assigned to such a tool: is this measure situated at :

- the individual fund level, as for any other fund to finely tune the cost of redeeming/subscribing into the fund (address a problem that is specific to one fund)  
or
- a more market level to manage a general situation of crisis where exceptionally the cost of accessing the liquidity has drastically changed in the market compared to the normal course?

This primary objective determines a subsequent question looking to know if the criteria for triggering (or at least for opening the period where the tool is “on”) should be left at the manager's hand as for any other fund or at a more collegial level where experts and regulators appraise the market conditions deterioration. Indeed, these anti-dilution tools are useless in case of full closing of money markets. Under such an extreme scenario, only suspension would help cope with massive redemptions.

In any case, AFG would like to remind that there is a limit on the use of swing pricing/any other anti-dilution mechanisms on very/extremely deteriorated markets because swing pricing is not an “illiquidity” management tool. Its use does not imply to deal with very deteriorated market conditions, but rather conditions that are deteriorating. Indeed, this tool better allocates the price for liquidity on the redeemers/subscribers that have initiated the movement in the fund (and thus protects the interests of remaining investors). It is a sort of equivalent for switching to bid pricing at a moment where spreads are widening more than normal. It allows to ensure equal treatment between investors. Swing pricing has been used on other funds during the crisis and has proven to be efficient in some cases.

There are also some operational issues to be considered.

- For instance, there is a need to assess if significant volumes could be treated in satisfactory conditions from an operational perspective. The benefit of a more micro tool is indeed dependent on the capacity of the fund administrator and of the post market chain to impact the swing at least daily (and even real time). Indeed, the vast majority of French VNAV funds are settled at T+0, which is a pillar feature for investors. If an antidilution option is envisaged, AFG strongly believes that all types of MMFs alike need an anti-dilution method that is not disruptive from several points of view (operational, commercial, etc).
- The question of the calibration of the swing factor is of high importance for the cost benefit analysis. Indeed, the market price for money markets is less obvious than for fixed income markets and the use of pricing models might make that the benefit in terms of too thin finetuning lies sometimes for instance within the margin of error of the pricing model.
- In addition, MMFs in particular have cyclical and anticipated redemptions (which might amount to as much as 20%). If the tool is set a more micro level, it should be conceived to be an efficient complement to the KYC anticipated redemptions (for which the manager is preparing the necessary liquidity in advance) in order to avoid any unwelcome and useless triggering.

Depending on the definition and calibration of the tool, another big question is what will be the acceptability of the tool by investors (knowing that the insertion of the tool would be dictated by law on all MMFs post reform).

It was reported that the sole possibility for gates to be activated on certain types of MMFs would have prompted some preventive procyclical redemptions. More generally, as MMFs are seen as the most liquid collective investment vehicles, any possible resort to LMTs must be cautiously processed, described, and implemented. Indeed, the risk of pre-emptive redemptions in case of an information given to the market of a (possible) swing triggering period is high. At the same time, it is interesting to explore the option of a “market” trigger period with regards more particularly to money markets. Indeed, in this case, it would be the unusual deterioration of the markets, on possibly all MMFs, that would be taken early into account by an expert group encompassing regulators, in order to eventually decide to act from the early signs of a possible crisis. In such a case, either each fund had the possibility to trigger upon its own AML standpoint or all funds trigger the swing / liquidity fee. In any case, it should be avoided situations where the market

anticipates the trigger period and acts preventively but also when firms face stigma / reputation risk by being singled out. From a pragmatic point of view, it seems that a globally shared market situation (like the market repercussions of a global pandemic event) might need a coordinated triggering with an expert committee under the supervision of the regulator. In any case, this question is valid especially when such a situation would not be stemming from a fund's or firm's specific risk.

For all MMFs alike, the swing could take the form of a definite % ADL or liquidity fee (an action on redeemers is sought) in order to be effective and operationally easier to implement. In order to work a solution placed under the principle of always seeking the best interest of all investors of a fund, this definite % 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 some basis points (with a maximum of 20 to 50bp on an annualised basis). 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. In addition, such tools, if activated by/in coordination with the authorities with an expert committee (in very rare and specific market situations that concern all funds at the same time), would also have as a positive effect to avoid stigma and unfairness between management companies and funds.

<ESMA\_QUESTION\_MMFR\_4>

**Q5 i) Do you agree with the above assessment of the potential need to increase liquidity buffers and/or make them usable/countercyclical and the corresponding potential proposal of amendment of the MMF Regulation? ii) With respect to option 1 above, views are sought in particular on the relevant threshold (on the size of redemptions) from which WLA would need to be automatically adjusted. When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_5>

First, philosophically, AFG disagrees to increasing the liquidity ratios because this change would not have solved the March market problem per se. In addition, raising the ratios as an ultimate objective might give a false impression (funds will not be 100% cash), they rather have to be marked to the market.

AFG would advise against any further emphasis on government instruments. The US situation is different to the EU - several sovereign risks and no appetite for investors in EUR markets (mainly French institutional investors, corporates, funds...).

However, the best solution is to preserve a minimum regulatory level and the flexibility to adapt to higher levels anytime needed, depending on each portfolio and liability context.

AFG is against the suggestion to increase by regulation or to reshape the liquidity buffers, a proposal which to our eyes has higher drawbacks than advantages. To say it short, the adequate liquidity ratio that ensures to meet any redemptions at any time is 100% cash. The higher the "imposed" calibration, the higher the permanent industry-wide sterilisation of investee's monies. Retaining the possibility to individually increase these buffers on a fund-by-fund level above the "minimum regulatory" one, which is already the case, is the most efficient solution.

The suggestion to increase by regulation or to reshape the liquidity buffers has higher drawbacks than advantages. To say it short, the adequate liquidity ratio that ensures to meet any redemptions at any time is 100% cash when the market is frozen of no further liquidity can be created via the selling of assets. The higher the "imposed" calibration, the higher the permanent industry-wide sterilisation of investee's monies. Retaining the possibility to individually increase these buffers on a fund-by-fund level above the "minimum regulatory" one, which is already the case and as demonstrated by fund managers during previous stress episodes, is the most efficient solution.

Moreover, it is worth highlighting the fact that defining a priori what is (by essence) a liquid asset is particularly difficult and even short term government Bills that are deemed to be liquid have experienced periods of squeeze, volatility or illiquidity during episodes like the US shutdown, the euro zone break up or any other country specific issues (ie : Greece, Italy, UK...). Before imposing any additional buffer of so called “liquid assets”, we should make sure that at any given time, these assets will not become the next source of stress.

This is not the case for the countercyclical feature of the existing liquidity buffers, where AFG totally believes it is a necessity and agrees with ESMA. VNAV funds have already countercyclical buffers as no automatic trigger is linked to the ratios and MMFR rightly gives the right to go under the level as long as no new higher-risk investment is done. This is a very smart feature of MMFR, please keep it!

“Water bottle in the desert”: AFG has always advocated for the liquidity buffers under the MMFR to be able to be used in case of redemptions.

AFG would like to take a step back and remind that liquidity is not a fixed concept and that at some time even “the highest quality government assets” as explained by the Bank of England (see in the introductory section) may face liquidity difficulties. One should not presume too much on the matter and overemphasize the expected behaviour of presumably more liquid instruments in the eye of a liquidity storm. Even if a presumed hierarchy of liquidity exists among the various asset classes, liquidity is not naturally attached to one asset class or another. The relative liquidity of assets can vary over time, affecting the cost or the time needed to liquidate the position held in the portfolio, and can sporadically be reduced or even disappear in case of a serious liquidity crisis in a given market segment. Liquidity is a dynamic and relative notion.

<ESMA\_QUESTION\_MMFR\_5>

**Q6 What are your views on the potential need to eliminate CNAV and LVNAV funds, in light of the recent market developments, and the corresponding potential proposal of amendment of the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_6>

N/A

<ESMA\_QUESTION\_MMFR\_6>

**Q7 What are your views on the extent to which Article 35 of the MMF Regulation should be i) clarified ii) amended? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_7>

The ECB intervention is not a fund external support. Article 35 would normally not require modification. Although AFG members do not oppose such a technical clarification, they do not see in principle the need for a change of pure legal nature of the text to clarify what is economically obvious in that respect. In addition, there should be noted that there is no level playing field with the situation in the US. Indeed, a tremendous difference between the US and European regulations lies in one admitting while the other forbidding sponsor support.

AFG does not support changing the essence of the European rule as MMFs are investment funds with no explicit or implicit guarantee attached. MMFR clarified that risks and opportunities lie with investors, their investment constitutes 100% of committed capital.

<ESMA\_QUESTION\_MMFR\_7>

**Q8 i) Do you agree with the above assessment of the potential need to assess the role of MMF ratings in light of the difficulties faced by MMFs during the March crisis, and the potential need to introduce regulatory requirements for MMF ratings? ii) In your view, based on your experience, what are the benefits of MMF rating from investors' perspective, having in mind that rules applying to MMFs are already very stringent? What would be the likely consequence on investors from the downgrade of one or several MMFs? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_8>

As a general comment, AFG supports that MMFR is the only rule governing MMFs in Europe. Rating MMFs might indeed bring risks to the market in case of downgrades. French MMFs are generally not rated as our members' clients require detailed knowledge on the MMFs' portfolios and do not seem to need an external verifier to certify the quality of management of funds. In addition, external ratings are given on an issuer pay model, which is costly to the fund and ultimately to the investor.

Regarding the ESMA's analysis on the MMFR's use of the word "credit ratings", AFG strongly believes that the explanation is less exegetical and much more straightforward. MMFR simply wanted to say "MMF ratings given by CRAs", this is why the word "rating" is used. It obviously does not seek to designate credit ratings.

<ESMA\_QUESTION\_MMFR\_8>

**Q9 Do you agree with the above assessment of the potential need to amend the requirements on stress tests included in the article 28 of the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_9>

In the context of March 2020 episode, AFG disagrees to an analysis regarding the informative value of the use of macro stress tests: *"A key issue is that while individual MMFs might be able to be resilient to the adverse scenario when considered in isolation, this might not be the case when all MMFs face a shock at the same time (as observed in March 2020)."* Or *"This is because individual MMF do not take into account what other MMFs might do at the same time. This coordination failure can create additional stress, especially given the high portfolio overlap, high market footprint and low liquidity of the markets MMFs invest in."* AFG agrees of course, as ESMA points out in its 2020 TRV, that MMFs intervene in money markets that are concentrated with a high footprint of the industry. The indicators are therefore to be looked at in the market, not intermediated via MMF stress tests (knowing in addition that MMFs are not the only party that intervenes in these markets). When there is no market functioning, there is no use to stress the industry to see if there is a difference between one fund that cannot sell paper or all funds that cannot sell. Indicators on the market like spread widening, volatility spikes, volumes sell-off etc. are already very explicit indicators to assess the state of the underlying market.

Regarding the recent crisis, AFG would like to recall that the improvement of the market sentiment by the announcement of the PEPP on 03/18 came quite late vis a vis the early signs of the crisis visible already in late February/early March through signs of liquidity tensions and spread widening for instance. Spikes of volatility and market sell off were very sharp and quick; 18 days before intervention seems too long. We suggest a more thorough and real time monitoring of market indicators enabling, if needed, central banks' action at earlier stages. We also suggest more coordination between Central Banks as well as more intensive sharing of common intelligence in order to be able to use a same wide array of types of intervention.



AFG agrees with the suggestion to send the report to ESMA at the same time as to the NCAs, if ESMA believes this measure strengthens the coordination mechanism. This should not change the current format of the associated reporting.

In theory, AFG sees no problem in trying to specify further the corrective measures that managers of MMFs need to take when stress tests reveal vulnerabilities of a specific MMFs. In reality, AFG doesn't see very clearly which measures ESMA has in mind and even less the relation with the March 2020 crisis. In addition, side effects of leaving less and less room for flexibility and increasing uniformity of response in a time of stress should also be analysed.

<ESMA\_QUESTION\_MMFR\_9>

**Q10 Do you agree with the above assessment on the potential need to review the reporting requirements under the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_10>

AFG is of the opinion that a more frequent reporting could indeed be activated in stressed market conditions (e.g. daily) with a subset of key indicators of the MMF Regulation reporting (e.g. Total Net asset value (TNA), WLA) to monitor the crisis, rather than systematically collecting the full MMF Regulation reporting on a monthly basis. This will help in addition to be able to add some information specifically needed in the context of the individual stressed episode. AFG would like to recall that the priority in a crisis is to manage the situation in the best interest of investors and that any new regulatory reporting during a stress period should be mindful of the additional burden and thus consider the cost/benefit ratio.

However, AFG would like to add that the current reporting has been recently implemented (1<sup>st</sup> quarter 2020), that is quite heavy to perform and that is in addition updated with ESMA new calibrations each year. AFG thinks it would be more appropriate to make a first assessment when ESMA and NCAs have some lengthier feedback on how the current reporting is functioning before envisaging to reshape it.

<ESMA\_QUESTION\_MMFR\_10>

**Q11 Do you agree with the above assessment of the potential need to include additional requirements in the MMF Regulation, and/or potentially in other types of EU piece of legislation on the disclosure of money market instruments (MMIs) and main categories of investors to regulatory authorities (e.g. detailed information on liabilities)? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_11>

AFG agrees to the importance of increasing the knowledge on money markets. Daily transparency on issuance and transaction information would be very useful indeed. We propose the implementation of a trade repository easily accessible, enabling a follow-up of the issuers outstanding volumes and displaying the characteristics of the short-term papers issued (nature, eligibility, maturity, ISIN, sector ...). Information on the types of investors in money markets and the trends of their investment would also be useful. Neu CPs are benefitting from better transparency (Banque de France statistics), standardisation and facility of use than Euro CPs. The Short-Term European Paper (STEP) initiative/label should also be reinvigorated to increase the confidence in the short-term markets.

As in the case of NeuCP, it would be useful to create a European regulated market for EuroCP, with better transparency on pricing, issue and secondary market volumes. It should also be permitted that all these papers be eligible as collateral with the ECB.



AFG would like to specify that in normal times CP market is a very liquid one, where secondary trading occurs with no difficulty. As it is a very short-term market, investors have in general a tendency to access liquidity via the successive arriving to maturity of instruments held in portfolio. Consequently, the volumes of actual secondary trading are lower than for longer dated debt instruments.

AFG members believe that in addition central banks should be able to take as temporary repo portfolio short term papers that respect a set of minimum criteria (credit rating, maturity, etc). The objective would be to facilitate the access to central banks' repurchase programmes either through reinforcing the effectiveness of the circuit going through banking institutions (current situation) or even get direct access.

The KYC for MMFs is an important tool to manage funds efficiently. Although the ultimate beneficiary and very granular data is rarely available\*, the management by identification of the main broad categories of investors (treasurers, corporates, funds, insurance, etc) is an appropriate way to deal with investor behaviour. AFG members already disclose the breakdown by investors in the MMF quarterly reporting to authorities. If needed, this section could be reported more ...during a stress period. However, each stress and each crisis are different. AFG does not support pre-emptively overloading reporting requirements. As for any other asset class, we don't see the rationale to enhance some parts of the reporting not knowing what information will be necessary in the next market stress. AFG would like to recall that the priority in a crisis is to manage the situation in the best interest of investors and that any new regulatory reporting during a stress period should be mindful of the additional burden and thus consider the cost/benefit ratio.

\*AFG reminds that detailed information on investors is very difficult to have for asset management companies. The only way to get it would be a regulation which would require distributors to disclose such information. The information our members have is precise on direct selling processes but less detailed for the part sold externally.

<ESMA\_QUESTION\_MMFR\_11>

**Q12        i) Do you agree with the above assessment on the potential creation of a LEF? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80. ii) Several open questions related to the creation of the LEF, on which ESMA would specifically welcome feedback from stakeholders, include:**

- 1.        What should be the appropriate size of such a pooling vehicle as the LEF?**
- 2.        In terms of funding, how much MMF would have to pay each year to participate in the pool? How much of the funding would/should be provided by other sources?**
- 3.        How long would it take to establish such a LEF?**
- 4.        Under which conditions would the LEF be activated?**
- 5.        Who would be responsible for activating the LEF.**

<ESMA\_QUESTION\_MMFR\_12>

AFG thinks that a LEF is a disruptive measure and highly advises against such a mechanism. Our members have very high reservations regarding the feasibility and acceptability of such an option. AFG would like to recall that an MMF is like any other non-guaranteed investment fund and as such cannot be totally "self-resilient" or "self-immune" to underlying markets. Its objective is to preserve investors fairness, including during a market crisis or halt, and to always strive for the best interest of investors under its fiduciary duty. Although the LEF might theoretically seem the only recourse for an MMF to obtain a direct access to Central Bank money in case of a serious crisis, it is such a costly solution to be efficient to provide for billions of redemptions (for instance a magnitude of 50 bn in redemptions for French MMFs as of the March 2020 crisis) that it could potentially disrupt the market. And to say nothing of the fact that it creates moral hazard.

AFG would like to express an important general remark regarding the concept of “self-resilience”. MMFs cannot be totally “self-resilient” unless they are guaranteed funds by a third party authorized to do so. They cannot be guaranteed because the cost of the banking issued guarantee prevents any viable MMF structuring. An MMF is above all an investment fund specialised on short term markets (this is true for all MMFs, including Government MMFs). As MMFs are dependent on the well-functioning of the underlying money markets (they don’t have direct access to Central banks and they are intermediated by banks to buy and sell papers), clear and unambiguous transparency should always be given to investors about the nature and risks of MMFs, like the FSB is suggesting : “...any documents used for marketing must include a statement that the risk of loss of the principal is to be borne by the investor. More transparency around the conditions under which the risk can crystallise and disclosure to investors could enable investors to better assess the risks they are exposed to, via their investments in MMFs.” For AFG, this is the only viable way forward.

<ESMA\_QUESTION\_MMFR\_12>

**Q13 Do you agree with the above assessment on the potential need of further clarification of the requirements of articles 1 and 6 of the MMF Regulation? When you answer this question, please also take into account the grid of criteria listed in paragraphs 76 to 80.**

<ESMA\_QUESTION\_MMFR\_13>

AFG believes that the requirements of articles 1 and 6 of the MMF Regulation are clear and that the scope of MMFR is unambiguous. The practice in France and the regulators’ scrutiny did not reveal, to our knowledge, any scoping issue. We would like to know what are the questions that lead to this section and who and why asked them. This is unclear to us, so AFG cannot answer an issue if one does not know if there is a problem and what this problem would look like. It could be interesting to analyse whether the current definition of MMF has given rise to uneven implementation or serious misunderstandings before contemplating any change to the definition. In addition, we are afraid that further attempts of changing the text will not help clarifying the scope, but on the contrary, it may give rise to other non-intended issues.

<ESMA\_QUESTION\_MMFR\_13>