FSB's Consultation

Policy Proposals to Enhance Money Market Fund Resilience

July 16 2021

CONSULTATION

AFG's RESPONSE

association française de la gestion financière

The Association Française de la Gestion financière (AFG) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments. These companies manage at end 2019 more than €4,000 billion in assets, i.e. a quarter of continental Europe's assets under management.

The AFG's remit:

- Representing the business, financial and corporate interests of members, the entities that they manage (collective investment schemes) and their customers. As a talking partner of the public authorities of France and the European Union, the AFG makes an active contribution to new regulations,
- Informing and supporting its members; the AFG provides members with support on legal, tax, accounting and technical matters,
- Leading debate and discussion within the industry on rules of conduct, the protection and economic role of investment, corporate governance, investor representation, performance measurement, changes in management techniques, research, training, etc.
- Promoting the French asset management industry to investors, issuers, politicians and the media in France and abroad. The AFG represents the French industry – a world leader – in European and international bodies. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA), of PensionsEurope and of the International Investment Funds Association (IIFA).

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AFG's response to the FSB's consultation on Policy Proposals to Enhance Money Market Fund Resilience

Introductory comments

AFG welcomes the opportunity to comment the FSB's consultation on Policy Proposals to Enhance Money Market Fund Resilience. AFG thanks the FSB for the very complete report that explores a wide variety of options.

Out of the MMFs domiciled in Europe, Variable NAV MMFs contribute by an overwhelming majority to the category of MMF denominated in Euro and French MMFs constitute by far the bulk of them. Therefore, when AFG comments the report and the options that might pertain to French MMFs, de facto AFG comments in the name of the vast majority of both € denominated & VNAV - Variable NAV - MMFs in Europe.

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 providing the major part of the short-term financing to European issuers in the domestic currency of the Eurozone. As of end of December 2020, 44% of the total € 1.4 trillion of MMFs domiciliated in Europe were Euro-denominated MMFs.

Before envisaging reforms, the careful observation of the facts and their combination to get a holistic view regarding the COVID-19 crisis unfolding is essential. AFG would like to complement the footnote 44 of the FSB report regarding the lessons learnt from the crisis with the AFG note [1]on € VNAV MMFs. As 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.

[1] AFG's contribution to MMFs analysis during pandemic : https://www.afg.asso.fr/wp-content/uploads/2021/04/2020-11-afg-contribution-to-mmf-analysis-during-pandemic.pdf

2. European MMFs have not been bailed out by the ECB: we recall that the bulk of redemptions in French VNAV MMFs were already dealt with before the ECB's intervention became effective on 27th of March.

3. 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 trigged 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.

4. MMFs should be seen as the "canary in coal mine" and should not be designated as the ideal culprits each time there is a crisis. Thanks to their role in the liquidity sphere, authorities are quickly informed about markets disruptions. Thanks to a well-organized cash management industry with well-identified investment vehicles and well-identified fund managers, authorities have highly valuable interlocutors to talk to. Reforms that would substantially alter the features of MMFs could lead to a massive switch to substitutes and risks would move to areas more difficult to understand and predict. The current escalation process between MMFs and authorities would certainly be impaired and financial instability would increase.

AFG would like to share some fundamental elements of analysis.

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 government papers, short term credit bonds, reverse repos, etc… we cannot assume that MMFs 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: *"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 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.

European PEPP/ CSPP: we would like to 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, i.e., market banks). In particular, ECB programmes 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:*** AFG strongly believes that 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. 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 programme or to halt it when the market has taken over). It is useful to identify the ultimate beneficiaries of the programme by category and be able for instance to dedicate a part of such a programme 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' "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 experienced 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 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 potential regulatory options mix for European VNAVs, AFG thinks that:

- in priority, underlying markets should benefit from more transparency and smoother functioning
- the FSB should continue to permit flexibility for domestic authorities to efficiently adapt options to their own markets and regulations, if and where needed
- the review of the Regulation (MMFR) should only be addressed if and where there are targeted needs
- 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 could be further refined internally (the anticipation and knowledge on main investors' behaviours is paramount to managing MMFs in the most efficient way possible in the interest of investors)
- liquidity ratios should continue to be countercyclical for VNAVs and the current flexibility permitted by MMFR maintained
- reporting: 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 only when required by highly stressed market conditions

Detailed questions

1. What are the key vulnerabilities that MMF reforms should address? What characteristics and functions of the MMFs in your jurisdiction should be the focal point for reforms?

MMFs in France are all managed as VNAV (Variable NAV) funds, and they are denominated in the European domestic currency. French MMFs make the bulk of Euro-denominated MMFs throughout the EU. AFG does therefore not comment here the options to be envisaged to reinforce MMFs that offer constant dealing price (LVNAVs & PDCNAVs in Europe, CNAVs) or that are offered in an offshore currency.

Regarding the possible areas of improvement and FSB's analysis on potential areas of vulnerability, AFG would like to recall that French MMFs are all VNAVs. This means that structural potential vulnerabilities linked to a specific set-up more prompt to bear the risk of 1st mover advantage (like redemptions at constant value and investor expectations of a "cash-like"[2] product) do not concern VNAV MMFs.

AFG would like to share some observations regarding the question of redemptions' vulnerability linked to a crisis event characterised by sudden redemptions coupled with the difficulty to sell underlying paper and the general question of liquidity mismatch.

Global pandemic

The COVID-19 crisis was an unpredictable general exogenous crisis. The starting point was a global pandemic that freezed a substantial part of the economic activity. With no surprise, the crisis also touched the financial sphere. As part of the economy was frozen and part of it had to reinvent itself through the use of homeworking, AFG is of the opinion that some of the vulnerabilities attributed to MMFs are in fact those of any underlying market which faces suddenly, and with an unprecedented magnitude, a situation of uncertainty shared by a vast majority of its participants. Ongoingly seeking to achieve further resilience on MMFs is a worthwhile goal that AFG totally supports, however AFG urges the FSB not to overemphasize the role of MMFs during the crisis and thus avoid trying to fix something that is not broken. The FSB is right in saying that *"MMF reforms by themselves will not likely solve the structural fragilities in STFMs".*

Focus on money markets

AFG strongly believes that from now on the primary focus of any reform having the objective of increasing the resilience of MMFs should be to improve the underlying money markets' functioning. It is key that investment funds can rely on the liquidity and the well-functioning of the underlying markets in which they operate. Policy reforms should absolutely focus on the way to reduce the fragilities and vulnerabilities of short-term markets. We hardly believe

[2] The concept of "cash-like" does not equal "cash equivalent". European VNAV MMFs are available as cash equivalent investments, of course as always upon the decision of the investor's auditor. Investors in French MMFs value highly that their investment in VNAV MMFs can be deducted from their gross debt. European MMFs are considered as benefitting from the presumption of compliance with the criteria of the IAS 7 norm, as recalled by the November 2018 position of ANC (Autorité des Normes Comptables). At the same time, investors in VNAV MMFs understand perfectly that VNAVs are not "cash-like", i.e., that their NAV fluctuates and that the sums invested are not guaranteed.

that investment funds, even without any supposed vulnerability, could operate independently or ex-nihilo when the functioning of the underlying markets remains impaired. It is as if we were asking planes to be able to fly even when there is no aerodynamic lift. MMFs may of course constantly seek to improve their functioning and their transparency, but fundamentally they benefit from a solid regulation issued from several reforms. The latest dedicated reform, quite recent in its application (since January 2019 on the existing funds and delivering a quarterly reporting since the 1st quarter 2020), has been a heavy one and resulted in MMFs being resilient during the unforeseeable exogenous global COVID-19 sanitary crisis.

MMFs are investment funds

Collective asset management implies more or less of liquidity mismatch which does not constitute an impediment to the smooth functioning of mutual funds. It is the excess mismatch that is a risk, and it should be minimised.

We believe that we should be careful not to go too far in the quest to try to address all the so-called MMF vulnerabilities. It would be a mistake to ask MMFs to operate on a daily basis as if they were constantly in stressed markets. This would be highly inefficient and detrimental to both investors and borrowers. We should not find ourselves in a situation where the indirect costs of new measures outweigh by far the cost of what we want to avoid.

We agree with the FSB that the nature of funds (and more precisely their "promise" to investors) is paramount to consider when envisaging policy options.

European/French VNAV MMFs are investment funds with no explicit or implicit guarantee attached. The European Money Market Fund Regulation (MMFR) clarified that risks and opportunities lie with investors, their investment constitutes 100% of committed capital.

It has always been our belief that fundamentally an MMF is above all an investment fund specialised on short term markets. 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 and sustainable way forward.

AFG thus thinks that VNAVs' resilience enhancement is in line with MMFs' nature as investment funds where NAV variability is already a feature accepted by investors. Policies that enhance the feature that risks and costs are borne equitably by investors (like anti-dilution mechanisms) might be worth looking at. These characteristics should not imply for VNAVs to be less appealing as cash management vehicles for investors, as VNAV investors in general do not seek cash-like products, but rather funds that offer a remuneration in line with money markets and are eligible as cash equivalent. NAV variability is in line with the one of money markets, which is naturally contained, to which it adds the naturally smoothening effects induced by MMFR's combined rules on diversification, eligible assets restrictions, immediate liquidity cushions, WAM/WAL/maturity limits, market and liquidity stress tests, etc. AFG thus does not see any new element likely to call into question the current interpretation of IAS 7 standard in "cash equivalent". We thus refute the idea, at least in the European jurisdiction, that "*These funds may also be less likely to satisfy, in some jurisdictions, the guidance and interpretation of the accounting standards that define whether MMFs are "cash equivalent"."* On the contrary, we believe that calling into question the current reasonable interpretation of IAS 7 standard in “cash equivalent” on VNAV funds could be very dangerous as it could turn investors away from precisely those MMFs that have made efforts to reflect the underlying value in the most sincere and transparent way.

2. What policy options would be most effective in enhancing the resilience of MMFs, both within individual jurisdictions and globally, and in minimising the need for extraordinary official sector interventions in the future?

MMFs in France are all managed as VNAV (Variable NAV) funds, and they are denominated in the European domestic currency. French MMFs make the bulk of Euro-denominated MMFs throughout the EU. AFG does therefore not comment here the options to be envisaged to reinforce MMFs that offer constant dealing price (LVNAVs & PDCNAVs in Europe, CNAVs) or that are offered in an offshore currency.

AFG agrees that no intervention of central banks should be seen as granted as central banks must keep playing their role of last resort support only when required by highly stressed market conditions. 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.

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.

Regarding the regulatory options mix for European VNAVs, AFG thinks that:

- in priority, underlying markets should benefit from more transparency and smoother functioning
- the FSB should continue to permit flexibility for domestic authorities to efficiently adapt options to their own markets and regulations, if and where needed
- the review of the Regulation (MMFR) should only be addressed if and where there are targeted needs
- 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 could be further refined internally (the anticipation and knowledge on main investors' behaviours is paramount to managing MMFs in the most efficient way possible in the interest of investors)
- liquidity ratios should continue to be countercyclical for VNAVs and the current flexibility permitted by MMFR maintained
- reporting: frequency of the necessary items could be increased in times of crisis
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Anti-dilution mechanisms

Among the entire spectrum of policy options discussed to enhance the resilience and the functioning of MMFs globally, 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. Indeed, we would like to recall that when it comes to the necessity to implement Liquidity Management Tools (LMTs), it is important to have in mind that MMFs are perceived as the most liquid vehicles among the whole spectrum of collective schemes (no matter the MMF type). 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 in French VNAV MMFs 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.

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 inserted in the European regulation for the LVNAV and PDCNAV structures. We see no reason to prescribe differently swing pricing or ADLs depending on the MMF's type of valuation.

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 individual fund 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 at a more individual fund 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 has 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) 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 annualized 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.

Liquidity ratios

Some other options might seem to look like an additional step helping to increase the capacity to respond to redemptions, but in reality, we strongly think that regulators should seek to retain the current flexibility. AFG refers for instance to the suggestion to have an additional liquidity buffer, 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 and 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 (Eurozone break-up crisis, Greece crisis, Brexit…), 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” or imposing new limits on eligible assets, we should make sure that at any given time, these assets will not become the next source of stress. Requiring European MMFs to invest a higher portion of their assets in shorter dated and/or more liquid instruments, would in no case reduce the risk of large redemptions during stress. On the contrary, this will squeeze the market into an even more concentrated market. The side effect of a tightened market footprint should be considered. This option would also hinder the economic value of MMFs that finance CP and CD issuers (specifically NeuCP, Euro CP in France).

Requiring more public debt investment in proportion would be inappropriate to the European market because of diverse public credit risks, increasing squeeze on available BTFs and Schatz; and investors can already hold this type of paper without the need of intermediation.

Unlike funds offering constant dealing price, there is no need for VNAV MMFs to have additional liquidity buffers to secure a valuation gap.

This is not the case for the countercyclical feature of liquidity buffers, where AFG totally believes it is a necessity for the current buffers. 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 that should be kept. There is no need to mandating or authorising the use of liquidity ratios, they can already be used.

AFG does not disagree with the idea of each fund’s ability in setting each MMF’s required liquidity buffer based on its own characteristics, such as its investor base (MMFs sold to institutional investors might be subject to higher liquidity requirements) or the outcome of its fund-specific stress tests. However, like already said, AFG thinks that mandating increased ratios is not necessary and would not allow the much-needed flexibility to do it when and where useful with regards to markets’ situations. Recommending such a behaviour is however appropriate and an internal policy (and reporting to its national authority) on these aspects could be envisaged.

Investors

AFG does not think adapted to our jurisdiction to impose investor concentration limits. Know Your Customer rule are more appropriate and there have been reported no issue with regards investor concentration. Redemptions in March 2020 came rather from herding behaviour explained by a general and common stringent need for cash linked to an exogenous economic shock. In addition, AFG would like to remind 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.

3. How can the use of MMFs by investors for cash management purposes be reconciled with liquidity strains in underlying markets during times of stress?

It depends on the stress. AFG believes that each crisis is different, and adaptability/ flexibility is key to be able to maintain cash redemptions open.

It is also key that investors understand very clearly the type of investment they make in a fund operating in money markets and that despite their low volatility and very high level of credit quality, **no guarantee is attached. Investors may accept to pay the fair price of accessing liquidity during a market stress.**

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, some elements of this section could be reported more frequently 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 do not 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 we are confronted with 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.

French VNAV MMFs are subscribed mainly by institutional investors. MMFs 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.** At quarter end for instance, their outflows are generally important and are dealt in anticipation in a business-as-usual manner by asset managers. Indeed, MMFs have cyclical and anticipated redemptions (which might amount to as much as 20%) that are managed without difficulty. An efficient KYC permits discussion with the investors to anticipate redemptions for which the manager is preparing the necessary liquidity in advance. 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.

The question is how to manage redemptions during a high stress. We would like to recall that the current regulation has permitted during the unprecedented COVID-19 crisis to ensure that **the vast majority of redemptions orders be fulfilled before the PEPP become effective**. They are already resilient and permit to respond to clients demands even in periods of stress. **An enhancement that generally permits reinforcing client equal treatment during a stress period is the use of LMTs. However, depending on the definition and calibration of the tool, the 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 has 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) 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 annualized 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.

It should however be recalled that we cannot ask MMFs 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.

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 (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 freezed.

Regarding a possible flight from Standard MMFs to ST MMFs or from MMFs to direct holding of government papers, 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.

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.

Forms, functions and roles of MMFs

4. Does the report accurately describe the ways in which MMFs are structured, their functions for investors and borrowers, and their role in short-term funding markets across jurisdictions? Are there other aspects that the report has not considered?

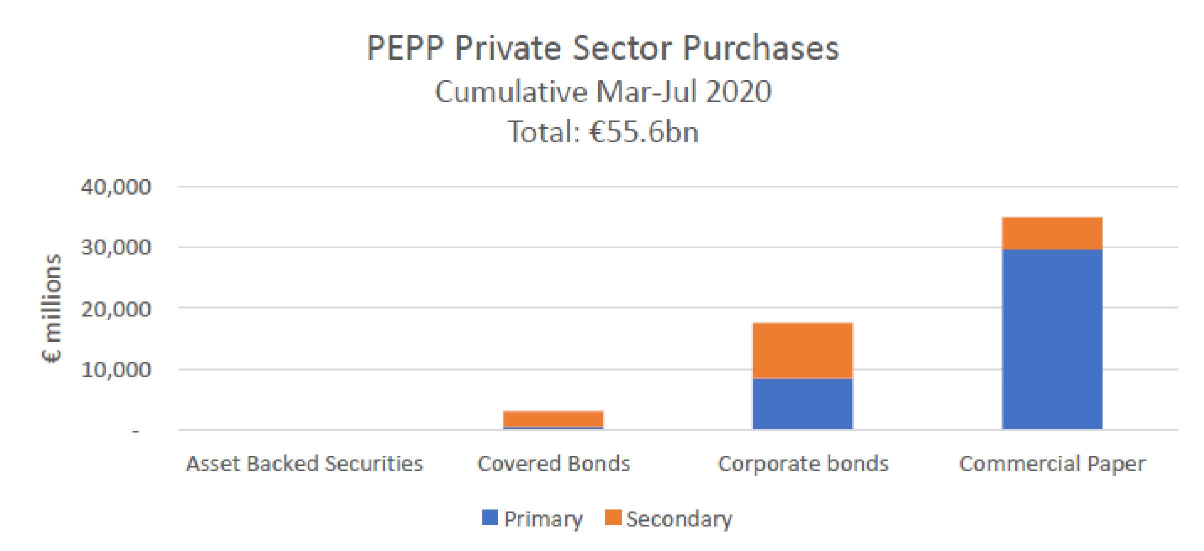
Yes, AFG believes that globally the report accurately describes MMFs and their environment. **AFG also appreciates that the report acknowledged differences between markets and that reform options should ultimately adapt to each market.**

AFG would have liked to see more emphasis on the importance of orderly functioning of underlying money markets. The report focuses on MMFs and further improving their resilience without seeking to weight and **prioritise the most efficient area of improvement, which for us remains the functioning of the underlying market**. The report even seems not to believe that dealers can be incentivised to continue to intermediate the market during market stress. AFG believes that the COVID-19 crisis is the perfect example that shows that relaxing some ratios exceptionally and in a targeted manner permitted dealers to reopen the secondary market trading. Digital platforms may increase the smoothness and liquidity, but in times of stress (with one sided deals) the intermediation through dealers that, contrary to platforms, have a balance sheet and can use part of it, is still the most efficient one.

The FSB says that "*Enhancing MMF resilience will help address systemic risks and minimise the need for future extraordinary central bank interventions to support the sector.*" **AFG would like to remind that European MMFs did not benefit directly from central bank intervention (MMFs were not bailed out) and that they have not amplified the crisis.** They are a simple actor in the market. With or without MMFs, the need to intervene would have been the same. ECB intervened for the sake of the good transmission of the monetary policy to the real economy, not for the sake of MMFs. This point can be illustrated by the fact that, **out of the €35bn of CPs that were bought by the ECB under the PEPP, almost the full amount was bought on the primary market, not on the secondary one.** Further resilience for all actors in a field is a sound principle, but the MMF regulatory restrictions will not solve further potential underlying market problems. In addition, we believe that if this exact episode were to happen again, the circuits are now in place to get going the underlying market more quickly. We are not in the "Groundhog Day" type of exercise. This **learning curve feature** should be factored in too because this severe full-scale stress tests has also had positive learning features that necessarily shifts the reading of a similar situation through a "non-stationary" lens.

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 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."*

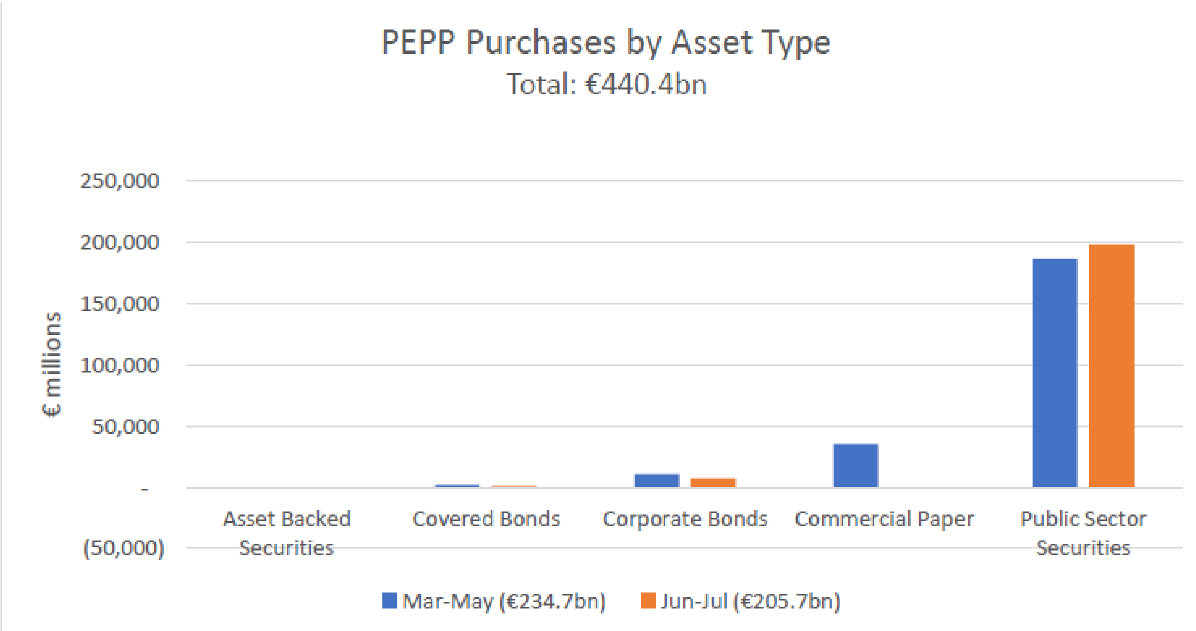


Source: ICMA analysis using ECB data

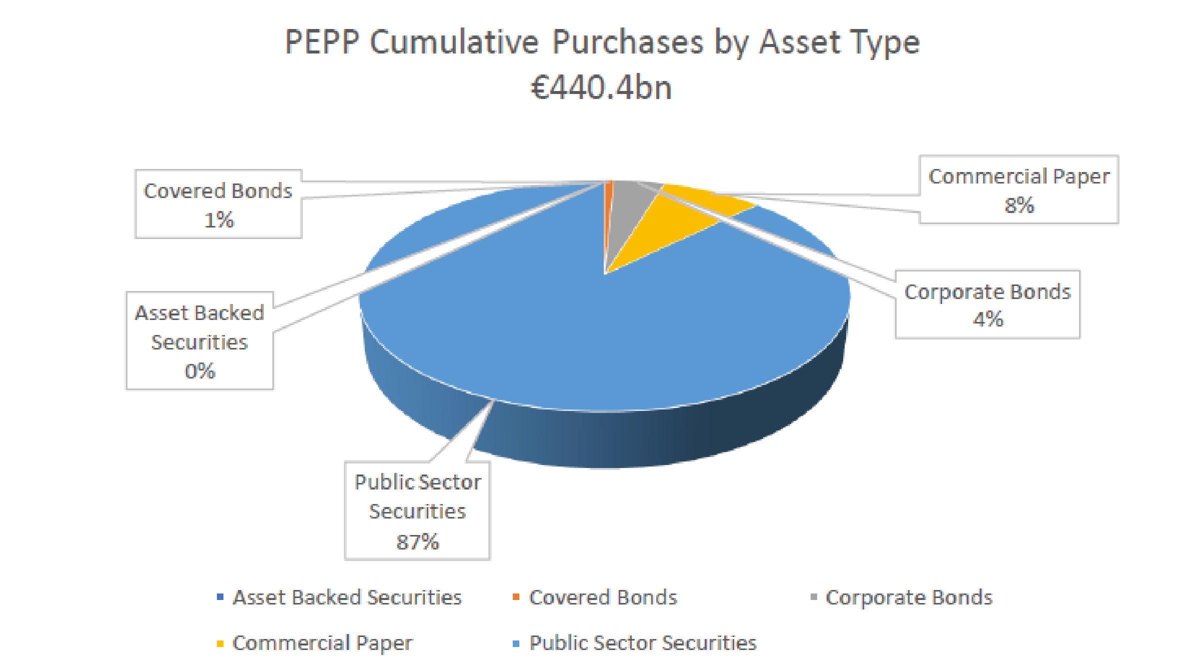
AFG agrees with the PEPP being a powerful tool, as the president of the ECB explains in
"One year of the PEPP: many achievements but no room for complacency
Blog post by Christine Lagarde, President of the ECB
22 March 2021"

- *"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."*

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 18th 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 programmes already put in place before the crisis (indeed, the ECB was already acquiring government papers, corporate bonds, covered bonds and ABS through its QE programme). In addition, there might have been a higher perception of the stress than in reality due to the fact that central banks did not cover operationally money markets. 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 [3]. Inflows resumed as soon as May (total AUM in March established at 301 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

[3] 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 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.

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 that are well identified is a good “global monetary risk management”.

Borrowers, like treasurers or corporates, seem puzzled when asked about 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 mainly towards substitutes and risks would move to areas more difficult to understand and predict, without retaining the benefits of the current diversification of sources for both MMFs’ investors and borrowers. This hypothesis would prove to be highly inefficient and detrimental to the real economy and clearly 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 centers with regards investor behavior. It demonstrates, for example, that compared with other European jurisdictions, French MMFs are still characterized by a significant quarterly cyclicality of flows with redemptions before the end of each quarter. This cyclicity feature might have, with the time passing by in latest year,s 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, 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 behaviors and investor flows.**

Increasing the knowledge on money markets is importance. 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), standardization 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.

The FSB says that *"Secondary markets for CPs and CDs are generally not liquid as investors, including MMFs, tend to buy and hold these instruments to maturity".* We share the same observation (hold to maturity), but not the interpretation (not liquid). 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. But again**, lower volumes do not necessarily signal an illiquid market**. In addition, for the money markets example, the explanation is of this **"optical illusion" of illiquidity** is already stated. So, we don't understand what is meant by *"some MMFs hold financial instruments that have limited liquidity, even under normal market conditions."*

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.

5. Does the report accurately describe potential MMF substitutes from the perspective of both investors and borrowers? To what extent do these substitutes differ for public debt and non-public debt MMFs? Are there other issues to consider?

In general, the potential substitutes are rather clearly depicted**. We agree to the fact that all jurisdictions do not have the same ability to have substitutes**, which is one of the reasons that needs adapting reform options to each market.

More specifically, from the AFG's point of view, the US MMF model where there was a **shift to government MMFs is not workable for Europe**, where investors are not seeking the same type of investment and where there is no unique Federal government debt like in the US. In addition, the US phenomenon of flight to quality that was observed from Prime MMFs to government MMFs was not observed in Europe, especially on the domestic currency MMFs (i.e., € denominated MMFs). So, the substitute to non-government MMFs mentioned in the FSB consultation with regards a move of investors towards government MMFs does not work for the European MMFs.

In addition, borrowers, like treasurers or corporates, seem puzzled when asked about 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 mainly towards substitutes and risks would move to areas more difficult to understand and predict, without retaining the benefits of the current diversification of sources for both MMFs' investors and borrowers. This hypothesis would prove to be highly inefficient and detrimental to the real economy and clearly suboptimal from a systemic point of view.

Vulnerabilities in MMFs

6. Does the report appropriately describe the most important MMF vulnerabilities, based on experiences in 2008 and 2020? Are there other vulnerabilities to note in your jurisdiction?

AFG does not think that the COVID-19 crisis revealed MMFs' vulnerabilities. Seeking further improvement of an already very resilient vehicle (that has undergone a heavy reform not so much time ago) is a sound goal. However, over-emphasizing the MMFs potential vulnerabilities through the lens of a global unprecedented sanitary pandemic seems to us somewhat disproportionate. In addition, it might possibly convey the wrong message that it is the fund that should be fixed, not the orderly functioning of the underlying markets.

AFG's members would like to recall 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. **European MMFs have not been bailed out by the ECB**: we recall that the bulk of redemptions in French VNAV MMFs were already dealt with before the ECB's intervention became effective on 27th of March.

3. **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 trigged 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.

4. **MMFs should be seen as the "canary in coal mine"** and should not be designated as the ideal culprits each time there is a crisis. Thanks to their role in the liquidity sphere, authorities are quickly informed about markets disruptions. Thanks to a well-organized cash management industry with well-identified investment vehicles and well-identified fund managers, authorities have highly valuable interlocutors to talk to. Reforms that would substantially alter the features of MMFs could lead to a massive switch to substitutes and risks would move to areas more difficult to understand and predict. The current escalation process between MMFs and authorities would certainly be impaired and financial instability would increase.

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 government papers, 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 : *"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 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. What is clear is that other instruments, assets classes or investments vehicles were impacted by the crisis (equities, corporate bonds, High Yield, government bonds, ETFs…). For sure, MMFs were not the only one to be impacted nor the first ones…

Policy proposals to enhance MMF resilience

7. Does the report appropriately categorise the main mechanisms to enhance MMF resilience? Are there other possible mechanisms to consider? Should these mechanisms apply to all types of MMFs?

AFG believes that the FSB has done a good wide-spread exercise and gathered a very large spectrum of information and options. We see no other points to consider, but to remind that efficiently ensuring further resilience should primarily focus on ensuring efficient and orderly underlying markets. The main mechanisms to enhance resilience for funds that are listed by the FSB are also to be seen in relation with the most efficient ways to increase resilience on money markets in general, the economic utility of MMFs and investors' best interest.

AFG believes that the minimum set of policies for ensuring MMF resilience is **globally already reached through the IOSCO's "Policy Recommendations for Money Market Funds**". Some targeted amendments may be added, but the general philosophy is there. Having as an objective to further uniformize might hinder the objective of preserving the economic utility of these short-term financing markets in each jurisdiction. **There are no global money markets, they are already "naturally fragmented", notably by currency and Central bank authority's scope. MMFs only reflect that reality.**

The COVID-19 crisis was **an unpredictable general exogenous crisis. AFG is of the opinion that the some of the vulnerabilities attributed to MMFs are in fact those of any underlying market** which faces suddenly, and with an unprecedented magnitude, a situation of uncertainty shared by a vast majority of its participants. Ongoingly seeking to achieve further resilience on MMFs is a worthwhile goal that AFG totally supports, however AFG urges the FSB not to overemphasize the role of MMFs during the crisis and thus avoid trying to fix something that is not broken. The FSB is right in saying that *"MMF reforms by themselves will not likely solve the structural fragilities in STFMs".*

MMFs may of course constantly seek to improve their functioning and their transparency, but fundamentally they benefit from a solid regulation issued from several reforms. The latest dedicated reform, quite recent in its application (January 2019 for existing funds, and delivering a quarterly reporting since the 1st quarter 2020), has been a heavy one and resulted in MMFs being resilient during the unforeseeable exogenous global COVID-19 sanitary crisis.

8. Does the assessment framework cover all relevant aspects of the impact of MMF policy reforms on fund investors, managers/sponsors, and underlying markets? Are there other aspects to consider?

AFG believes that an important aspect to consider is **the adoption of a holistic point of view on money markets functioning.** MMFs are only an actor in this field. All relevant aspects of the impact of policies directed to MMFs should be considered holistically, knowing that *"MMF reforms by themselves will not likely solve the structural fragilities in STFMs".*

AFG believes that MMFs were the "canary in the coal mine", not the source nor an amplifying element of the crisis. 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 the authorities to push for considering the real impacting solutions on the markets themselves. This should be the top priority at both international and European levels, as with or without MMFs, money markets should function in an orderly fashion.

We cannot ask MMFs 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. MMFs are investment vehicles that pass 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).

AFG finds that **some options are disruptive and are not compatible with the European regulation's spirit, namely the MBR, the LEF or any other form of capital buffer or 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 wrongly reinforces the idea that MMFs are "guarantying" the value and the liquidity of their shares.

In addition, AFG agrees with the FSB that this type of options *"would be unlikely to prevent large redemptions due to an aggregate increase in the demand for liquidity*."

The investors needs and acceptability of different options are also very important considerations. AFG believes that investors in VNAVs might accept in the case of difficult and stressed markets to pay the price of accessing liquidity. **Permitting access to liquidity, even in difficult situations, is very important for investors. In addition, in normal markets, the "cash equivalent" feature is an essential feature for them.** As we have explained before, this is not be mistaken with the deposit-like feature (or cash-like) which implies a in normal times dealing at constant value and no effect on the capital. We also agree that "*The long-run effect on the size of the industry will depend in part on the preferences of current MMF investors with respect to liquidity, principal stability, and yield."*

One important aspect to remind is linked the necessity of leeway. Some proposals might seem like an additional step helping to increase the capacity to respond to redemptions and authorities might think that itis always good to be as coercive as possible. In reality, we strongly think that authorities should also seek to retain flexibility as much as possible. **The**

capacity to adapt to different market environments is priceless. Money markets have evolved a lot in more than 30 years and money funds have managed to adapt. In addition, each crisis is different. We believe the MMFR, which was conceived after the 2008 crisis, should not be unravelled and the level of protection that has already been achieved on the credit side. In addition, the 2020 episode did not reveal vulnerabilities that would need a heavy and potentially disruptive reform. To say nothing of the fact that **the post-mortem of the crisis has revealed the necessity for central banks to have circuits in place to deal with an intervention in money markets, the only asset that was not covered already by an intervention programme. The advancement on the learning curve helping to identify early signs and deal with potential disruptions is to be considered too.**

9. Are the representative policy options appropriate and sufficient to address MMF vulnerabilities? Which of these options (if any) have broad applicability across jurisdictions? Which of these options are most appropriate for public debt and nonpublic debt MMFs? Are there other policy options that should be included as representative options (in addition to or instead of the current ones)?

Anti-dilution mechanisms

Among the entire spectrum of policy options discussed to enhance the resilience and the functioning of MMFs globally, AFG thinks that the anti-dilution option is worth taking the time to analyze for all MMFs. This option is not easy to calibrate and operate, the devil is in the details. Indeed, we would like to recall that when it comes to the necessity to implement Liquidity Management Tools (LMTs), it is important to have in mind that MMFs are perceived as the most liquid vehicles among the whole spectrum of collective schemes (no matter the MMF type). 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 anti-dilution levies.

AFG believes that **the representative option for the "swing pricing/anti-dilutive mechanism" should be the liquidity fees**. **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.**

Indeed, 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 inserted in the European regulation for the LVNAV and PDCNAV structures. We see no reason to prescribe differently swing pricing or ADLs depending on the MMF's type of valuation.

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?

There are very few public debt MMFs in €. For the European market, the representative MMF is a non-public debt MMF. At the same time, we do not see why anti-dilution mechanisms would not be efficient in the case of public debt MMFs, in case of severe stress.

10. Does the summary assessment of each representative option adequately highlight the main resilience benefits, impact on MMFs and the overall financial system, and operational considerations? Are there any other (e.g. jurisdiction-specific) factors that could determine the effectiveness of these options?

AFG believes that **additional limitation on eligible assets would be detrimental to European non-public MMFs**. AFG strongly believes that requiring European VNAV MMFs to invest a higher portion of their assets in shorter dated and/or more liquid instruments, would lower the economic interest of MMFs whose calling is to match investment and financing needs. Lowering MMFs' exposures to assets such as CP and CD **would hinder the economic value of these funds** while not achieving the objective of ultimately reduce large redemptions in times of stress.

AFG sees merits in **the variant consisting of internally setting each MMF's required liquidity buffer based on its own characteristics,** such as its investor base (MMFs sold to institutional investors might be subject to higher liquidity requirements) or the outcome of its fund-specific stress tests. However, to achieve its goal, the variant should be based on the principle of flexibility and not of one-size-fits-all constraint. It **should be conceived as a recommendation and not as a generalized rule.** Indeed, it should be avoided to carve additional constraints that might evolve permanently and uniformly towards increased ratios as well as to set **new risks** by inadvertently encouraging public monitoring and subsequent ly **creating a new tie on ratios**. **This would ultimately end up by erasing the current effective countercyclical feature of the European VNAV buffers**.

AFG strongly **advises against changing the terms for redemptions of MMF shares in normal times. MMFs are liquid vehicles that have no issue in dealing large redemptions in normal times.** Investors would turn massively to banking deposits and lose benefits of diversification while adding potentially new strains in the banking sector in times of crisis. AFG strongly believes that a system should be seen holistically and the spreading of risks between different actors that are well identified is a good "global monetary risk management". The FSB says that *"Secondary markets for CP and CDs are generally not liquid as investors, including MMFs, tend to buy and hold these instruments to maturity".* We share the same observation (hold to maturity), but not the interpretation (not liquid). 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. But again, **lower volumes do not necessarily signal an illiquid market.** In addition, for the money markets example, the explanation is of this **"optical illusion" of illiquidity** is already stated. So, we do not understand what is meant by *"some MMFs hold financial instruments that have limited liquidity, even under normal market conditions."*

Regarding **the option "additional liquidity requirements and escalation procedures",** AFG strongly believes that regulatory thresholds **would be counterproductive, and they would induce a focal point for investors creating new risks of cliff effects**. This option would be detrimental as such for European VNAVs whose liquidity ratios are well conceived and are already an efficient countercyclical mechanism.

11. Is the description of variants and the comparison of their main similarities/differences vis-à-vis the representative options appropriate? Are there other variants to consider?

As per previous answers, notably Q9 and Q10.

12. Are measures to enhance risk identification and monitoring by authorities and market participants appropriate complements to MMF policies? Which of these measures are likely to be most effective and why? Are there other measures to consider?

KYC

AFG believes that the **know your customer policies (KYC) could be further refined internally, because the anticipation and knowledge on main investors' behaviours is paramount to managing MMFs in the most efficient way possible in the interest of investors**.

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 behavior**. AFG members already disclose the breakdown by investors in the MMF quarterly reporting to authorities. If needed, this section could be reported more frequently 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 do not 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 we are confronted with 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.

Reportings

With regards to reportings to authorities, the frequency of the necessary items could be increased in times of crisis. This enhances the risk monitoring by authorities. Increasing the frequency of the whole reporting from quarterly to monthly would be very time consuming and costly while the utility seems to us to be very limited to none (for the sake of monitoring, sharing of data between banking and asset management authorities is the best way forward, as banking authorities for instance have already the full MMF portfolio reporting). With regards to public disclosures, the current regulation provides a high level of transparency. Any new public transparency requirement should also be assessed in terms of utility for investors as well as eventual inducement of procyclical behaviours.

STFMs transparency

We agree that **increasing transparency requirements for STFMs and other participants within these markets is very important and should be a priority.** Indeed, we agree with the FSB th*at "MMF reforms by themselves will not likely solve the structural fragilities in STFMs."*, that *"Authorities might therefore consider adopting measures to improve the functioning of CP and CD markets."*

However, we are more optimistic that the FSB regarding the powerful positive consequences of improving the underlying market. Let's not forget that **NEU CPs for instance are eligible collateral to the Central Bank, dealers are thus ensured on the ultimate recourse they**

have with the Central Bank for getting liquidity. We thus not share FSB's too pessimistic wording*: "While useful in their own right, it is not clear that such measures would change the limited incentives of market participants to trade or of dealers to intermediate, particularly during stress periods."* AFG believes that **the COVID-19 crisis is the perfect example that shows that relaxing some ratios exceptionally and in a targeted manner permitted dealers to reopen the secondary market trading**. Digital platforms may increase the smoothness and liquidity, but in times of stress (with one sided deals) the intermediation through dealers that, contrary to platforms, have a balance sheet and can use part of it, is still the most efficient one. It is ultimately the confidence and credibility on the money markets (as eligible instruments to the ECB) that is the key of orderly and collectively well-functioning markets.

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), standardization 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.

Stress tests

Regarding stress tests, they are of course generally very useful, but let us state the obvious: when a crisis occurs, one's objective is not performing stress tests, but managing the situation. AFG has the feeling that sometimes the role of stress tests might be misunderstood. **Stress tests are one tool (among others) in the manager's hand to grasp responsiveness of the current portfolio to different hypothesis and market factors. Regulatory stress tests are not "the" tool to manage the portfolio, and even less during times of crisis, where the "stress test" is in fact a real situation. The real situation is somewhat the "stress test" outcome and foremost, action is needed.**

In the context of March 2020 episode, AFG agrees with authorities, (highlighted for instance in ESMA's 2020 TRV – Trends, Risks and Vulnerabilities), 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.

Last but not least, regarding sector-level stress tests, side effects of leaving less and less room for flexibility and increasing uniformity of response in a time of stress should also be analysed.

Considerations in selecting policies

13. Are the key considerations in the selection of policies to enhance MMF resilience appropriate? Are there other considerations that should be mentioned?

The key considerations in the selection of policies to enhance MMF resilience seem appropriate. They should be as much as possible adapted to the jurisdiction (underlying money markets by currency, existing regulations, type of investors, type of NAV dealing/Valuation…).

Please refer to our analysis set out in Q1.

Nevertheless, AFG is of the opinion that too much emphasis is put on the resilience achieved solely through MMF reform and not enough through the underlying market reform. In addition, it should be avoided trying to fix something that is not broken. The FSB is right in saying that *"MMF reforms by themselves will not likely solve the structural fragilities in STFMs".*

14. Which options complement each other well and could potentially be combined? What are the most appropriate combinations to address MMF vulnerabilities in your jurisdiction? Which combinations are most effective for different MMF types and their functions?

Our members manage VNAVs, mainly non-public € denominated VNAVs.

From the start, regarding the types of mechanisms to reduce reliance, the following ones are not relevant for VNAVs: Absorb losses, Reduce threshold effects (including extensions and variants like: MMF investor concentration limits, additional countercyclical liquidity buffer).

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.

Regarding the mechanism described as "**Impose on redeeming investors the cost of their redemptions"**, AFG thinks that **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).

Regarding the mechanism described as **“Reduce liquidity transformation”, AFG believes that further limitation on eligible assets is not compatible with non-public € denominated VNAVs. It hinders their economic utility and attractiveness for both investors and borrowers for very little added benefit. Measures towards more use of government paper are not relevant for € denominated funds. Extensions and variants like “Limit MMFs to government MMFs, redemption in kind, non-daily dealing, liquidity-based redemption deferrals” would be disruptive for our market.** Requiring more public debt investment in proportion would be inappropriate to the European market because of diverse public credit risks, increasing squeeze on available BTFs and Schatz; and investors can already hold this type of paper without the need of intermediation. Redirecting part of MMFs’ investments towards public debt would be at the expense of the private sector that would lose a cheap source of funding and have less options in terms of sources of funding.

When comes to “Additional liquidity requirements and escalation procedures”, AFG strongly believes that internal further enhancement around liquidity ratio calibration and KYC are interesting tools, as long as they remain internal so as to ensure the much-needed flexibility to adapt to each fund’s situation.

“Mandating that MMFs hold minimum amounts of assets that can be readily converted to cash over a 2-week horizon or less” seems useless. **Current buffers are already useful and 2 weeks horizon would not add sufficient help if sudden redemptions happen on a couple of days.**

We **totally disagree with adding new ties between regulatory thresholds** like suggested *“the use of liquidity management tools would be structured around escalation procedures when regulatory thresholds are breached. In such circumstances, MMFs would be required to use price-based tools such as liquidity fees or swing pricing first, then quantity-based tools (notice or settlement periods), before finally being able to use gates.”* **Currently, VNAV ratios are free to use, they are counter-cyclical.** This measure would totally go against a countercyclical objective and would create new problems (cliff effects). This consultation acknowledges the need to remove ties for constant NAV MMFs and at the same time it proposes new ties for all funds where the existing regulation was very well conceived.

Currently, 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 that should be kept. There is no need to mandating or authorising the use of liquidity ratios, they can already be used.

The suggestion to have an additional mandatory liquidity buffer is 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 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…). Unlike funds offering constant dealing price, there is no need for VAV MMFs to have additional liquidity buffers to secure a valuation gap.

AFG does not disagree with the idea of **each fund's ability in setting each MMF's required liquidity buffer based on its own characteristics**, such as its investor base (MMFs sold to institutional investors might be subject to higher liquidity requirements) or the outcome of its fund-specific stress tests. However, like already said, AFG thinks that mandating increased ratios is not necessary and would not allow the **much-needed flexibility** to do it when and where useful with regards to markets' situations. **Recommending such a behaviour** is however appropriate and an internal policy (and reporting to its national authority) on these aspects could be envisaged.

Before imposing any additional buffer of so called "liquid assets" or imposing new limits on eligible assets, we should make sure that at any given time, these assets will not become the next source of stress. Requiring European MMFs to invest a higher portion of their assets in shorter dated and/or more liquid instruments, would in no case reduce the risk of large redemptions during stress and on the contrary will squeeze the market into an even more concentrated market. This option would also hinder the economic value of MMFs that finance CP and CD issuers (specifically NeuCP, Euro CP in France). In addition, holistically, banks would be unable to take more cash on deposits.

Regarding the suggestion to remove the tie with fees and gates, AFG thinks that USD and GBP LVNAVs and PDCNAVs 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 level of the liquidity ratios for MMFs offering constant dealing price is thus linked to the valuation gap. The final objective was avoiding breaking the buck or to implement other options too, disruptive for the industry and the market (there are significant volumes invested in these funds that are important for certain types of investors). 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 links.

15. To what extent should authorities seek to align MMF reforms across jurisdictions? Is there a minimum set of policies or level of MMF resilience that should be considered at the international level to avoid fragmentation and regulatory arbitrage?

AFG believes that the effects of the regulations should globally seek with priority to reinforce smoothness in the functioning of money markets and ensure that the main risks identified are addressed at the right level. The review of the Regulation (MMFR for the European jurisdiction) should only be addressed if and where there are targeted needs.

Regarding international coordination, AFG believes that the minimum set of policies for ensuring MMF resilience is globally already reached through the IOSCO's "Policy Recommendations for Money Market Funds". Some targeted amendments may be added, but the general philosophy is there. Having as an objective to further uniformize might hinder the objective of preserving the economic utility of these short-term financing markets in each jurisdiction. **There are no global money markets, they are already "naturally fragmented", notably by currency and Central bank authority's scope. MMFs only reflect that reality.**

As in the US, money markets are key short-term financing markets and money market funds are major investment vehicles in France. In March 2020, the € short-term funding markets too 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.

AFG would like to highlight the fact that the reform options highlighted in this consultation cover a very large spectrum and are an important step in the analysis of money market funds globally. However, this large spectrum does not equal the lowest common denominator and naturally, the analysis and potential reform options are adapted for one jurisdiction's specificities (ex: US MMFs). They pertain to this market in particular and cannot be simply transposed to the European or French markets for instance.

Indeed, if we take the European case, European markets and regulation are specific, and authorities should be very attentive to the spectrum of the options on the table in relation to the different market specificities. We would like to highlight this aspect, as not all measures are globally meaningful or applicable. For instance, a tremendous difference between the US and European regulations lies in one admitting while the other forbidding sponsor support. **European VNAVs do not offer constant dealing price and investors are clearly making the difference between the risks and "promise" of guarantee on a banking deposit (cash-like feature) versus an investment in short term markets via an MMF (cash equivalent feature).** Differences like this should not be overlooked when analysing options from a global (FSB/IOSCO) standpoint.

The US MMF model where there was a shift to government MMFs is not workable for Europe, where investors are not seeking the same type of investment and where there is no unique Federal government debt like in the US. In addition, the US phenomenon of flight to quality that was observed from Prime MMFs to government MMFs was not observed in Europe, especially on the domestic currency MMFs (i.e. € denominated MMFs). So, the substitute to non-government MMFs mentioned in the FSB consultation with regards a move of investors towards government MMFs does not work for the European MMFs.

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, 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 redemptions were high almost in all asset classes.

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[4]. Despite the significant net

[4] 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 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

outflows in March, inflows resumed as soon as May. 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 investors 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's 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 that are well identified is a good "global monetary risk management".**

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 closest as possible to the markets to avoid any incentivisation to a first mover advantage because of a constant NAV or LVNAV type cliff-effect.

AFG would like to express one last general remark regarding the concept of self-resilience that has been used by various stakeholders lately. **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), there should be clear transparency to 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."*

Short-term funding markets (STFMs)

16. Does the report accurately describe problems in the structure and functioning of STFMs and how these have interacted with MMFs in stress periods?

AFG would have liked to see more emphasis on the importance of orderly functioning of underlying money markets.

The report focuses on MMFs and further improving their resilience without seeking to weight and prioritise the most efficient area of improvement, which for us remains the functioning of the underlying market. The report even seems not to believe that dealers can be incentivised to continue to intermediate the market during market stress. AFG believes that the COVID-19 crisis is the perfect example that shows that relaxing some ratios exceptionally and in a targeted manner permitted dealers to reopen the secondary

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.

market trading. Digital platforms may increase the smoothness and liquidity, but in times of stress (with one sided deals) the intermediation through dealers that, contrary to platforms, have a balance sheet and can use part of it, is still the most efficient one.

The FSB says that "*Enhancing MMF resilience will help address systemic risks and minimise the need for future extraordinary central bank interventions to support the sector."* AFG would like to remind that European MMFs did not benefit directly from central bank intervention (MMFs were not bailed out) and that they have not amplified the crisis. They are a simple actor in the market. With or without MMFs, the need to intervene would have been the same. ECB intervened for the sake of the good transmission of the monetary policy to the real economy, not for the sake of MMF. This point can be illustrated by the fact that, out of the €35bn of CPs that were bought by the ECB under the PEPP, almost the full amount was bought on the primary market, not on the secondary one. Further resilience for all actors in a field is a sound principle, but the MMF regulatory restrictions will not solve further potential underlying market problems.

For more insight, please refer to our answer to Q4.

17. What other measures should be considered to enhance the overall resilience of STFMs? How would those measures interact with MMF policy reforms and how effective are they likely to be in preserving market functioning in stress times?

Following a thorough COVID-19 crisis assessment and considering the achievements in terms of resilience already achieved with the occasion of previous MMF reforms, AFG strongly believes that measures intended to enhance the overall resilience of STFMs are very likely to be the most effective ones in preserving market functioning in stress times.

Please see our response to Q4, as well as introductory comments and responses to Q1,2, 3.

Additional considerations

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

MMF resilience should not be looked at in isolation. MMFs are only a player in money markets. These short-term financing markets should be considered holistically. Any type of reforms or enhancements should be carefully considered with their impact on the pursuit of safe, easy, and cheap short-term financing for issuers (non-public financial and non-financial ones). Attractivity should be maintained for investors, as MMFs are important vehicles that efficiently match short term investment needs with short term financing needs. **The areas of improvement should be fairly attributed amongst players and their role and capacity to contribute efficiently to the safeness of the markets with a holistic view.**

AFG would like to strengthen 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 pro-grammes 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, i.e. market banks. 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. In addition, we believe that if this exact episode were to happen again, the circuits are now in place to get going the underlying market more quickly. This learning curve feature should be factored in too because this severe full-scale stress tests has also had positive learning features that necessarily shifts the reading of a similar situation.