European Fund and Asset Management Association

EFAMA RESPONSE TO THE FSB CONSULTATION REPORT ON POLICY PROPOSALS TO ENHANCE MONEY MARKET FUND RESILIENCE

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EXECUTIVE SUMMARY

EFAMA welcomes the opportunity to respond to the FSB's consultation report on policy proposals intended to enhance MMF resilience. We care to observe, however, that the unusually short consultation period and its unfortunate coincidence with the summer holiday season, has inevitably affected the quality and depth of our response, including – as we presume - those of other key stakeholders as well. While cognisant of the FSB's strict timelines in view of upcoming G20 summits, these should not come at the expense of a necessary and more informed debate on the causes at the root of last year's stresses in global short-term funding markets (STFMs) and on ways to remedy these in the future. In fact, the options presented in the consultation report appear hurried and dismissive of critical facts, calling therefore for a deeper engagement with the global financial and investing community at large.

From a careful analysis of the consultation report, we draw the following preliminary considerations, reflected by our answers to the individual questions below in greater detail:

- Throughout the paper, there is an apparent tension between an accurate description of the forms, functions and roles of MMFs (Section 2), including their interaction with the broader short-term funding ecosystem, and the resulting policy proposals (Section 4), which imply that MMFs were primarily "the weakest link in the chain" during the March 2020 liquidity events. The latter conclusion is neither supported by data, nor can be derived from the direct experience of market participants, making most of the FSB's policy proposals difficult to justify. Instead, **the relevance of STFMs and their functioning should be stressed and tailored policy options further explored to address the resilience of the critical intermediation function offered by bank dealers, along with their incentives, at times of market stress**;

- Liquidity mismatches in MMFs (as per other types of open-end investment structures) are still largely viewed as a "key vulnerability", discounting the effects of the post-2008 global financial crisis regulations designed specifically to assist managers in matching funds' asset with liabilities. Far from being perceived as a "stigma", institutional investors accounting for the bulk of assets invested in European MMFs fully recognise their liquidity features and do not consider MMFs as equivalents of a deposit account (or other lending facility) held with a bank. Upon investing, investors in MMFs are also well aware they could potentially lose a part of their committed capital. Moreover, it is also well understood that liquidity under very volatile market conditions may come at an additional cost. We therefore note that **the underlying dichotomy in the FSB's consultation paper between MMFs viewed solely as "cash like" (akin to bank deposits) and alternatively as investment vehicles should be solved in favour of the latter notion once and for all**. The latter in fact reflects the common understanding of all informed investors in MMFs, including that of corporate treasurers as their primary users;

- The post-2008 global financial crisis reforms introduced decisive changes in the regulation of MMFs across several jurisdictions. In Europe, these were translated into the Money Market Fund Regulation (MMFR), effective since January 2019[1]. Its many requirements are the direct outcome of the reforms that the FSB, along with IOSCO, had largely contributed to. In identifying outstanding "key vulnerabilities" within the MMF product, and despite the very different nature of the 2020 events compared to those of 2008, the consultation report implies that the previous

[1] Please refer to Regulation (EU) 2017/1131 of 14 June 2017 on money market funds, available at the following hyperlink.

extensive reform rounds have not been effective. On the contrary, EFAMA believes these have, as demonstrated precisely by the events of March 2020 which in many ways became the MMFR framework's first general "stress test". **The fact that no European MMF had to introduce liquidity fees, gates or even suspend redemptions as a result, bears testimony to the quality of the regulations put in place following the 2008 global financial crisis in Europe**;

- Greater caution is warranted when considering the extent of official sector interventions in the course of March 2020, as **no case can be made to suggest that the European MMF industry benefitted from the direct support of the ECB**. Rather, the ECB's Pandemic Emergency Purchase Programme (PEPP), unveiled on 18 March, was limited both in nature and scope to support the recovery of the Eurozone real economy as national government lockdown measures began curtailing essential (non-financial) economic activities. In addition, its actual implementation through the six Eurosystem central banks participating in the programme only began several weeks later, by which most MMFs had already recorded their largest outflows. In terms of limited scope, the Bank of England and HM Treasury's Covid-19 Corporate Financing Facility (CCFF) was in many ways similar to that the of the ECB. On the other hand, **the accompanying measures in the form of refinancing operations and waivers for dealer bank operations proved essential for the resumption of the bidding process in underlying money markets**;

- Of the several policy options presented in the consultation report (both "representative" and "variant" ones), the one most effective to further improve the resilience of MMFs *per se* is **removing the link between the existing regulatory liquidity thresholds and the potential imposition of fees and/or gates by fund boards** (specifically for public debt CNAV and LVNAV structures in Europe). This should be combined with an operationally simple liquidity management mechanism for all MMFs in the form of a liquidity fee, able to attribute redemption costs to redeeming investors under stressed market conditions. The suggested recourse to swing pricing is not workable for MMFs;

- **In relation to all other remaining options, we consider these to be either outdated or not appropriate to remedy problems which have their origin elsewhere** (i.e. in the functioning of STFMs). We also note that most of them, apart from not being effective in the event of a complete STFM freeze, promise to also substantially alter market participants' needs and preferences. As an example, the removal of non-government MMFs from European markets would (i) substantially reduce European banks' access to short-term funding (given the prevailing proportion of financial CP held by non-government MMFs in Europe); and (ii) leave investors (mostly corporates) with inferior alternative options, proving operationally complex, reducing diversification and sacrificing considerable investment yield. We consider that investors' preferences for liquidity, principal stability and yield – implicit in non-government MMFs - should therefore not be compromised by a top-down and largely "one-way" policy approach bearing only financial stability considerations in mind. Among other variant options, we also oppose the activation of liquidity management tools by macroprudential authorities for the reasons explained further below;

- Viewed together, **the array of policy options presented in the consultation report appears "static", in that it has largely been recovered from the previous post-2008 global financial crisis reform efforts, without adequate consideration on how MMFs and investor demand have evolved in the course of a decade**. Moreover, no consideration is made of how, since March 2020, the ECB and the other key central banks of the Eurosystem have become far more familiar with operationalising asset purchase programmes in their interactions with market participants;

- As to the choice over how to prioritise and combine the different reform options, EFAMA believes this should be of secondary importance. Instead, what in our view remains critical is **how different**

global jurisdictions intend the functions of MMFs going forward, or in other terms, how they will opt between considering MMFs as a pure "cash-like" *versus* a short-term investment vehicle. Our Members and the investment community at large clearly support this latter notion. Consequently, besides the universal implementation of de-linking the imposition of liquidity fees and gates from regulatory thresholds (where applicable), combined with liquidity fees as the most appropriate liquidity management tool short of a full STFM freeze, EFAMA believes that reform options for MMFs will need to be reviewed in light of their jurisdiction- and market-specific characteristics; and

– Lastly, as the "other" measures the European asset management industry would recommend to enhance the overall resilience of STFMs, we fundamentally regret that not enough time has been offered to proactively engage with the official sector to further discuss and elaborate a series of proposals aimed at ensuring a long-term solution for the liquidity stresses witnessed in March 2020. We nevertheless make two important recommendations which must be addressed in greater detail if STFMs are to made more resilient, and namely, (i) review the Basel III-based dealer capital treatments, and (ii) efforts aimed at facilitating central bank coordination, while harmonising and improving the overall transparency of STFMs.

OVERALL QUESTIONS

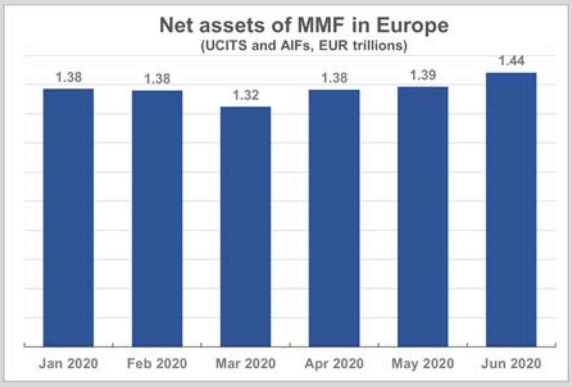
Q1: What are the key vulnerabilities that MMF reforms should address? What characteristics and functions of the MMFs in your jurisdiction should be the focal point for reforms?

EFAMA would resolutely challenge the FSB's conclusion that two defining features of MMFs, notably their susceptibility to sudden redemption requests and their exposures to hard-to-sell assets, should be qualified as "key vulnerabilities". Instead, as the events of March 2020 have moreover convincingly demonstrated, **the primary cause of the stresses confronted by MMFs over a few weeks is to be found in the functioning of STFMs**, with a focus on dealers' incentives to continue matching issuers of short-term instruments with MMFs (and their ultimate investors) even during volatile times. In other terms, the sought-after enhancements as outlined in the FSB's consultation report are in our view largely "off the mark" and would benefit from a more holistic calibration that considers MMFs' interactions with other key intermediaries active in STFMs. While there are passages of the consultation report that describe these interactions to a certain degree, combined with the admission that (…) *MMF reforms by themselves will not likely solve the structural fragilities in STFMs* (…) without a reform of the underlying CP or CD market, the report stops short of further articulating the latter reform options from a more holistic (i.e. "sell-side") perspective.

Regarding the second "key vulnerability" as described in the consultation report, related to the perceived low degree of liquidity of MMF investable assets even under normal market conditions, we note that the fact that MMFs buy and hold assets until maturity should not conclude there is in fact a low degree of liquidity in secondary markets.

As to the main characteristics and functions of MMFs in Europe, we find that these have been well represented in Box 1 of the consultation report. Worth noting, however, is that **despite the severity of the liquidity shock** - in turn provoked by the gradual implementation of European government-imposed lockdown measures as from late February 2020 and accompanied by significant withdrawals **- the net assets of European MMFs dropped by only 4% in the course of March compared to the previous month, recovering steadily in the space of few weeks** to reach EUR 1.44 trillion at the end of June.

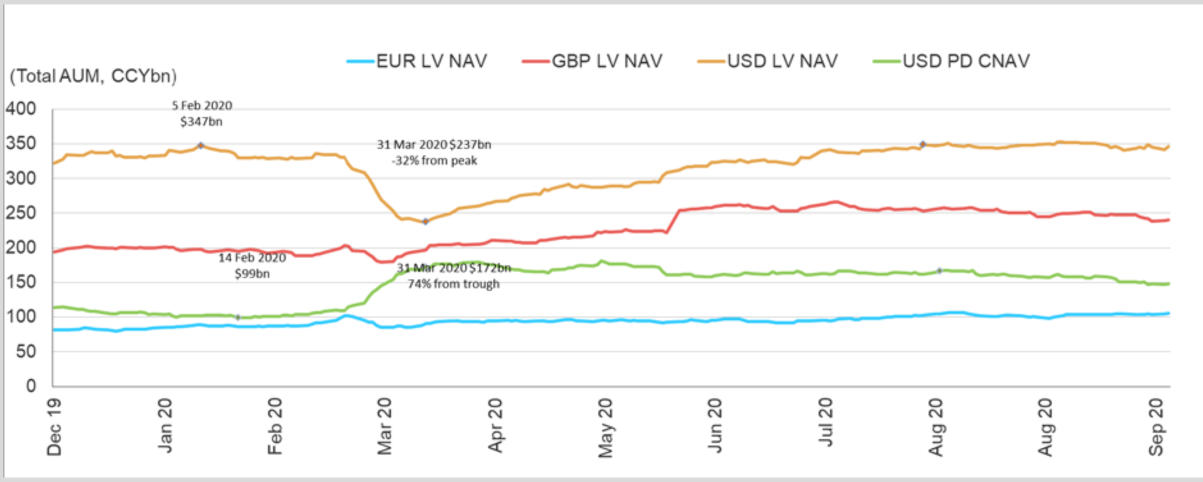
Evolution of European MMF net sales in 1st half of 2020



Source: EFAMA

Judging from the size of the total net outflows experienced in March and their consequent rebound already by April and throughout in the second quarter of 2020, one concludes that **MMF flows did not have the seismic effect that would support the far-reaching reforms the FSB consultation report has outlined**. This is also true considering for instance that outflows from non-government MMFs, as USD-denominated low-volatility NAV funds (LVNAVs), found their way into public debt USD-denominated constant NAV (CNAV) MMFs, confirming investors' confidence in the MMF product against other alternatives. The chart below illustrates these flows more specifically, with USD LVNAVs represented by the orange line and USD public debt CNAVs by the green line. Considerable outflows and inflows were respectively recorded between early/mid-February and the end of March. Following the announcement of the U.S. Federal Reserve's intervention in concomitance with that of the ECB on 18 March, flows abated, before reversing their respective directions only once official sector programmes began to be implemented. Investors gradually returned to USD LVNAVs and the pace of inflows into USD public debt CNAVs stabilised and levelled-off.

Chart I - LVNAV vs. PDCNAV MMF flows



Source: Fitch Ratings, iMoneyNet

The experience of VNAV funds (concentrated predominantly in France) was analogous, with investors returning to invest decisively in these vehicles (especially of the Standard VNAV type) as from mid-April 2020[2].

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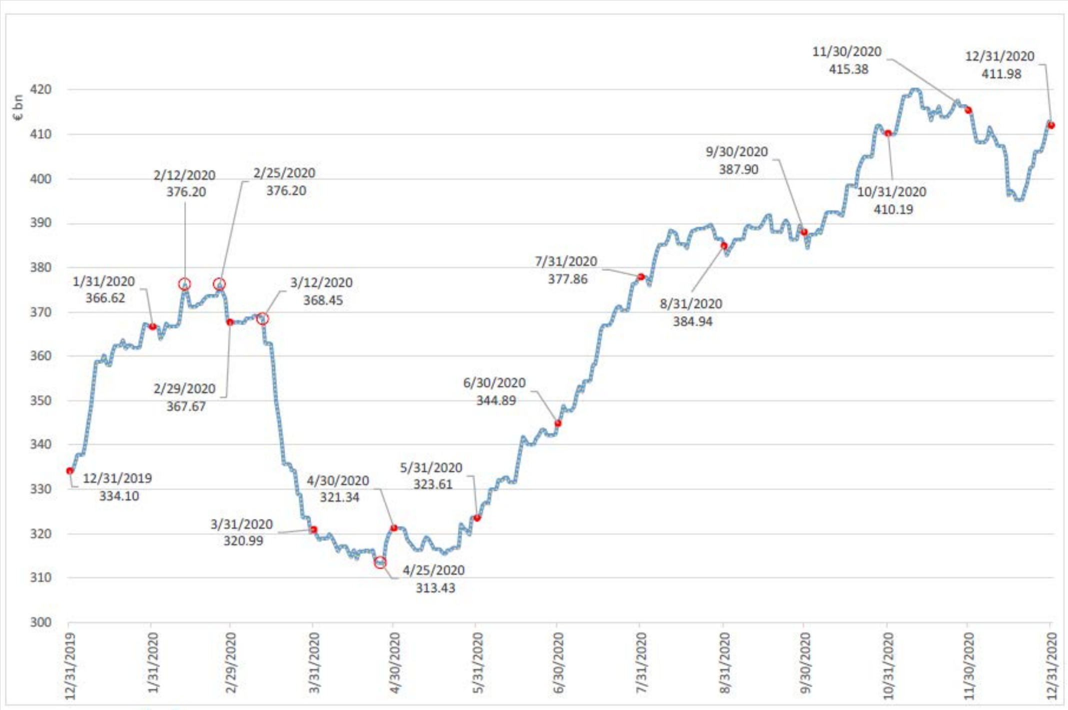
[2] For further insights into the behaviour of French VNAV funds, please refer to the May 2021 study by the French AMF *Detailed analysis of the portfolios of French money market funds during the Covid-19 crisis in early 2020*, by Pierre-Emmanuel Darpeix and Natacha Mosson; available at the following hyperlink.

Chart II - Change in cumulative net assets of all French MMFs (in EUR billion)



Source: AMF, BIO database

The options presented under Section 4 of the consultation report appear to be disproportionate also in light of the fact that **no European MMF had to consider imposing redemption fees or gates to manage its liabilities *vis-à-vis* redeeming investors**. On their part, the specific LVNAV structures also did not breach their regulatory (20 basis point) "collar", which would have required the temporary adoption of a variable NAV for any consequent subscription or redemption, as foreseen under the European MMFR regime[3]. In addition, while presenting the cumulative MMF flows for the three key MMF jurisdictions in Europe (Ireland, France and Luxembourg), no attempt is made in the consultation report to separate investors' seasonal demand for cash (typically at each quarter-end) from the additional amounts of cash investors required to confront a one-off, emergency situation provoked by a global pandemic. Therefore, the "seriousness" of the recorded outflows would deserve to be tempered by an additional set of considerations the FSB has so far discounted.

Of the preliminary options to prepare the reform of the EU MMFR regime in Europe, tabled by ESMA in its consultation released in March this year, EFAMA believes that most do not substantially address the core problems related to the functioning of short-term money markets in periods of stress. However, of the "buy-side"-specific options for reform, we certainly favor the removal of the explicit link between regulatory thresholds and the potential imposition of fees and gates on redeeming investors. We illustrate our reasoning for this in our response to Question 2 below.

While understanding global policy-makers' desire to agree on policy-recommendations sooner rather than later, in line with the G20's post-Covid reform agenda, **the options presented in the FSB's consultation report appear to be "rushed" and would call for a deeper discussion and engagement with the global financial and investing community**. Greater caution would also be justified in light of the stark differences emerging among key regions and jurisdictions in their experience of confronting the March 2020 pandemic-induced volatility events. Among these, for instance, are fundamental differences in the size and scope of central bank intervention that MMFs witnessed at the height of the March 2020 liquidity crisis between U.S. Federal Reserve and the

[3] For further insights and analysis, please refer to the EFAMA's November 2020 report European MMFs in the Covid-19 market turmoil: Evidence, experience and tentative considerations around eventual future reforms; available at the following [hyperlink].

European Central Bank (ECB)/Bank of England/HM Treasury. That the consultation report omits such facts and broadly assumes that the global MMF sector was "bailed out" through extraordinary official sector interventions is unfortunate.

Q2: 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?

Beginning with the second part of the question, we reiterate our firm view that **official sector interventions, especially in the Eurozone, were deliberately not targeted to support the MMF industry, but the Eurozone real economy instead**. In fact, the scope of the ECB's primary intervention tool – the Pandemic Emergency Purchase Programme (PEPP)[4] – was designed to support non-financial corporates by facilitating access to emergency finance as European economies were being severely impacted by the government-imposed lockdown measures. Upon announcing the PEPP on 18 March 2020, the ECB for the first time expanded the scope of eligible securities under its existing Corporate Sector Purchase Programmes (CSPP) to include only non-financial CP as a mean to support corporate financing and address dysfunctions in the underlying market. The exclusion of financial CP, as well as that of instruments denominated in non-Euro currencies, thus ruled out a substantial part of USD- and GBP-denominated financial CP typically included in European MMF portfolios.

In the words of the current ECB President, Christine Lagarde, upon drawing conclusions from the launch of the PEPP one year on:

> *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[5].*

The ECB's intervention was therefore aimed at restoring confidence across the economy of the Eurozone and this falls naturally within any central bank's mandate. We remain wary of attempts to use the ECB's (or any other central bank's) intervention as a pretext to apply additional layers of regulation on MMFs, especially where not supported by data or from market participants' direct experience.

In the experience of Sterling-denominated MMFs, the breadth of the joint Bank of England/HM Treasury's Covid-19 Corporate Financing Facility (CCFF) was in many ways similar to that the of the ECB. Announced on 17 March, the facility was intended to provide financing for non-financial corporates only. Bank CP, as an important asset class for MMFs, as well as CP issued by other financial entities, remained therefore ineligible[6]. With non-financial corporate exposure in GBP-denominated MMFs being very low (around 2%), the CCFF has been of very limited benefit for GBP-denominated MMFs altogether. The Bank of England's accompanying Contingent Term Repo Facility (CTRF), activated on 24 March, provided support for longer term financing. As short-term instruments typically held by MMFs were not the target of this programme, banks were still impaired from purchasing shorter-term assets from MMFs.

Our conclusion that the MMF sector did not benefit directly from official sector interventions is further supported by the fact that non-bank financial institutions and asset managers had been expressly

[4] Announced on 18 March 2020, the PEPP foresaw a sizeable envelope of EUR 750 billion in asset purchases to be conducted at least until the end of 2020. It accompanied a EUR 120 billion top-up of the ECB's existing Asset Purchase Programme (APP) communicated a week earlier. For further details, please refer to the relevant ECB press release, the dedicated webpage, and Q&A.

[5] Please refer to the 22 March 2021 official blog posted by ECB President Christine Lagarde, available at the following hyperlink.

[6] Please refer to the relevant CCFF Q&A for more details, available at the following hyperlink.

excluded under the PEPP from directly offering assets for purchase as eligible counterparties to the ECB's operations. As a result, MMF managers remained solely dependent on dealer banks, which in turn were able to resume their bidding of financial CP only following the announcement of additional temporary capital and operational relief measures (see *infra*).

That the ECB's intervention for instance did not have the significance for European MMFs largely attributed to it is also demonstrated by the experience of EFAMA's Members during the implementation of the PEPP in the weeks following its announcement. Conditions for asset eligibility under the PEPP were not sufficiently defined, nor adequately disclosed by the six participating Eurosystem central banks. Their market operations were moreover uncoordinated and proved uneven, especially in terms of not standardising the eligibility of various money market instruments and in bidding for only very few securities (i.e. those with the shortest maturities) at prices that were not reflecting where the broader market was pricing them at. This is an area where we would strongly support initiatives aimed at enhancing the overall transparency of European money markets across their spectrum. We return to these considerations in our response to Question 17 further below.

As to which policy options would be most effective in further improving the resilience of MMFs *per se*, we note that **the "representative" option of removing the link between the existing regulatory liquidity thresholds and the potential imposition of fees and/or gates by fund boards is by far the most promising.** The latter should be combined with a liquidity management mechanism in the form of an anti-dilution levy – as a liquidity fee – able to attribute redemption costs to redeeming investors, while proving operationally simple to implement under stressed market conditions. In this latter regard, we care to note that **the use of swing pricing as an alternative representative option is not workable** for the reasons explained further below.

In relation to all other representative options outlined in the paper, to be considered in isolation or possibly combined with "variant" ones, we consider most of these to be either outdated or not appropriate in seeking to remedy problems that may not necessarily exist. In any case, most will not be viable if global policy-makers and supervisors wish to preserve the role and value of MMFs as an alternative to non-bank funding channels for global issuers and investors at large. Moreover, we do not believe a convincing case has been made in the FSB's consultation report to justify the series of far-reaching, with some even "revolutionary", options. As we demonstrate throughout this response, **the liquidity events of March 2020 cannot be attributed to the design or functioning of MMFs *per se*.** In the absence therefore of a clear market failure on their behalf, the G20 post-pandemic financial reforms should be refocused to capture a more holistic view of money markets, extending it more precisely to dealer banks (insofar as their capital treatment is concerned) and to the functioning and transparency of CP and CD markets.

Q3: How can the use of MMFs by investors for cash management purposes be reconciled with liquidity strains in underlying markets during times of stress?

The twin functions of MMFs for investors have been accurately recognised under Section 2.3. of the consultation report; i.e. provide (i) principal stability, while offering liquidity on a daily basis, and (ii) pay yields in line with market rates (typically higher than bank deposit rates). Through MMFs, the report accurately continues, investors are offered a low-cost exposure to wholesale money market instruments, allowing them to hold a well-diversified blend of instruments issued by different counterparties, compared to less secure options as uninsured bank deposits, or direct investments in money market instruments themselves. **We believe these twin functions and their broader benefits cannot be disassociated, as their combined value is what ultimately leads investors to select MMFs over lesser alternatives**, all while accepting to "stomach" occasional underlying market volatility, or even its temporary seizure under more extreme circumstances.

As noted previously, the experience of EFAMA Members in the course of the March 2020 events has proven that liquidity strains had their origin elsewhere, i.e. in an event like the Covid-19 pandemic that was at the same time unpredictable and exogenous to financial markets. Its effects inevitably trickled through the financial system, eventually causing the issuance of short-term instruments and their intermediation (through dealers' bidding process) to ultimately freeze over a short period, with a consequent knock-on effect on the ability of MMFs to find bidders to buy back some of their holdings.

Despite the liquidity strains in the underlying market and until dealers' bidding activity was allowed to resume through the abovementioned series of targeted intervention measures by public authorities, MMFs in Europe met all redemption demands, aided by the prudent management of liquidity around regulatory thresholds and an accurate profiling of their main client types as a result of the EU MMFR provisions, effective since January 2019. Such provisions were by design intended to manage the liquidity mismatches which are natural to any open-end fund structure, including MMFs. They therefore already provide an existing solution - designed and introduced on the back of the post-2008 global financial crisis reforms – which has unquestionably guaranteed the resilience of European MMF structures and served their industry well by aptly reconciling investors' sudden need for cash with the liquidity strains witnessed in the first two weeks of March 2020. **The fact that no European MMF regulatory threshold was breached, nor fees or gates imposed on redeeming investors, are proof that existing regulatory solutions require no fundamental review**.

FORMS, FUNCTIONS AND ROLES OF MMFS

Q4: 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?

Overall, we consider that the consultation report's description of MMF types across jurisdictions, their role in the short-term funding ecosystem, along with their core functions for issuers and investors alike, is complete and accurate. In particular, we found the insights on the role of dealers and their incentives particularly helpful for framing a more balanced debate around regulatory reforms of global money markets, as well as valuable references to banks as the largest recipients of MMF funding notably via the elevated concentration of financial commercial paper in non-government MMFs (i.e. in Europe, those of the LVNAV and VNAV type). It is unfortunate that these important findings seem not to have been considered by the FSB when outlining the reform options presented under Section 4 of the consultation report. For instance, the finding that outside the U.S., non-government MMFs account for over half of the financing being extended to banks, should lead the FSB to be more cautious when suggesting an option as radical as the elimination of such non-government MMFs altogether. In Europe, where two of the three largest MMF domiciles (i.e. Ireland and Luxembourg) account for about 60% (USD 744 billion) of funding in Dollar, Euro and Sterling to banks of other jurisdictions, **the possible limitation of only government MMFs to be offered in the future promises to substantially reduce European banks' access to capital**. Moreover, as we further argue below, **there is no comparable and sufficiently diversified pool of government securities in Europe *versus* the U.S., leaving MMF investors no choice besides a concentrated portfolio at zero – where not negative – yields**.

As anticipated above, one aspect the report has not considered is the effect of MMFs' seasonal quarter-end outflows, as for instance, from institutional corporates based on their quarter-end accounting needs, pension funds which need to meet regular pay-outs to scheme holders, etc. The size of the outflows presented in the FSB's data charts (e.g. Figure 4) should attempt to account for these cyclical outflows by estimating their relative proportion compared to the gross amounts recorded in March 2020. **It is safe to conclude that not all outflows then recorded represented a "dash for cash" induced by governments' lockdown measures.** As proof of the scale of such seasonal redemptions under normal market conditions compared to the ones experienced in March 2020, we invite the FSB to consider the evidence offered in a recent study by the French *Autorité des Marchés Financiers* (AMF)[7].

Q5: 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?

The consultation report considers a range of potential available MMF substitutes and accurately mentions their main drawbacks on which we fundamentally agree.

Starting with **bank deposits** (and to the extent the bank does not enter a resolution regime), these can by no means replace MMFs in that they would merely offer principal stability, devoid of any diversification both in terms of asset exposure, as well as from a funding source perspective by increasing reliance on banks. As rightly noted in the consultation report, investment yield stands to be penalised as well. The option also raises the question on whether banks wish to hold more sizeable deposits given their impact on their own regulatory ratios and ultimately on their profitability, while confronting the potential evaporation of their main short-term funding sources from non-government MMFs in Europe. Issuers on their part have an interest to also diversify their funding sources away from banks by tapping into relatively cheaper European capital markets instead.

As to **public debt MMFs**, these certainly address investors' demands for safety, albeit again at the expense of additional yield, as well as of diversification. As the FSB realises, this option also proves unviable in the absence of a deep and well diversified public debt market in Europe denominated in Euro or other local currencies. We expect that the forced substitution of non-government MMFs with public debt ones will generate a demand squeeze for a very limited pool of the most highly-rated and liquid government securities (essentially, German short-term *Bunds* and French *BTFs*). In other terms and unlike in the U.S., in Europe there is no scalable sovereign, agency or municipal bond market of comparable proportions, thus making this option prohibitive.

Regarding **short-term bond funds**, these would also be imperfect substitutes by introducing greater volatility and credit risk, thus undermining the principle of capital preservation. Investors' experiences with such funds over past episodes of market stress have also demonstrated that such structures are far less suited to manage intra-day or even daily liquidity compared to MMFs, also in light of the latter's far stricter rules in terms of portfolio design, asset maturity thresholds and potential activation of liquidity management tools.

Lastly, in relation to the potential for **direct investment in money market instruments**, investors would find such option impractical and far more expensive, given the burden of having to select and manage their investments directly instead of relying on an already well-diversified pool of high quality securities managed by a professional asset management company. Moreover, both from a financial stability and market transparency perspective, regulatory disclosures and reporting requirements to supervisors required by the extensive EU MMFR regime prove MMFs are a far better alternative, compared to having investors instead manage their own cash balances, or rely on segregated accounts with professional asset managers for this same purpose. As a result, there would be far less transparency over fund flows, fund holdings and investor profiles for market supervisors to consider when monitoring the build-up of vulnerabilities.

In assessing potential substitutes for sources of funding, the consultation report also enquires on whether **institutional investors** as pension funds and insurance companies, investing outside money markets, could replace MMFs. In brief, we do not believe so, given that the lower yields on money market instruments are not sufficient to match the long-term liabilities these investors must meet as

[7] Please refer to the May 2021 study by the French AMF's Pierre-Emmanuel Darpeix and Natacha Mosson, *Detailed analysis of the portfolios of French money market funds during the Covid-19 crisis in early 2020*; available at the following hyperlink.

part of their mandates.

While valuable to consider at least intellectually for the purpose of designing MMF reform options, **we conclude that none of the above alternatives – from the combined perspectives of issuers, investors and policy-makers/supervisors - can replace the essential role of non-government MMFs.**

VULNERABILITIES IN MMFS

Q6: 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?

As per our answer to Question 1, we disagree with the FSB's analysis of vulnerabilities in MMFs. A liquidity mismatch is inherent in many non-bank financing structures, including MMFs, and does not constitute a vulnerability to the extent it is framed by adequate regulation and is well understood by the professional investor community, as is the case in Europe with these products. Furthermore, a sudden surge in redemptions can already be countered through the appropriate existing liquidity and maturity regulatory thresholds (e.g. minimum daily and weekly requirements, WAM/WAL limits, etc.), an array of liquidity management tools (including fees and gates specifically for public debt CNAV and LVNAV funds), as well as by a better knowledge of clients types and of their behaviour. Ultimately, however, these safeguards are effective only to the extent that the underlying money markets – on which MMFs rely on – have not seized up completely. Where this occurs, as in the first two weeks of March 2020, official sector interventions by central banks are warranted in line with their broad mandate. In doing so, EFAMA would reiterate, neither the ECB nor the Bank of England/HM Treasury, "bailed-out" MMFs, but instead provided liquidity to European money markets that structurally lacked any other recourse, and in addition, with no loss for the EU taxpayer.

That the report has moreover confused the cause with the effect in relation to these events is apparent in the following passage (sub-Section 3.1):

> *Large redemptions in MMFs contributed to sharp increases in the cost of short-term funding for borrowers and a reduction in availability of some types of short-term funding, such as term CP and negotiable CDs, including USD-denominated instruments issued by non-US banks.*

The considerable size of net outflows from non-government MMFs in the first couple of weeks of March 2020 bears testimony of the immediate and larger-than-normal cash demand from MMF clients, as a result of the sudden liquidity crisis, compounded by the uncertainty surrounding official sector intervention. MMFs did not bring these conditions about, but merely sought – as designed - to meet a surge in redemption demands, as well as to further shore up their liquidity requirements in excess of the MMFR's regulatory *minima*. Naturally, this involved selling portfolio securities, but only to the extent that MMFs could find the usual counterparties to buy-back such securities in the market, namely dealer banks. In turn, the latter were also facing difficult choices, described well under Box 3 of the consultation report. These amounted essentially to avoid a further expansion of their balance sheet by taking medium- to longer-dated assets onto their books, in view of their own prudential requirements and especially in light of their fast approaching quarter-end reporting obligations. **Unlike the FSB concludes, however, these factors did not play a "minor role", emerging gradually in the post-Covid discussions within the broader financial community as the root cause behind the money market seizures in the first weeks of March 2020**. Challenges for dealers were also compounded by corporate clients choosing to draw down their existing credit lines and revolving facilities, as well as more broadly by the fact that key employees had to be confined to a home working environment. In sum, the key lesson learned from these events is that **MMFs do not exist in a vacuum, as their liquidity inevitably depends on conditions prevailing in STFMs at any one point in time**.

Conversely, we fundamentally agree with the questions raised at the end of Box 3, i.e. on whether there are clear limits to the intermediation dealer banks can exercise in the context of very pronounced liquidity shocks, as well as on whether these players can intermediate heavy flows all on their own and within the boundaries of their own ratios. The answers to these questions lead us to consider further options – among which, changes to market microstructures and increased transparency - in our response to Question 17 below.

POLICY PROPOSALS TO ENHANCE MMF RESILIENCE

Q7: 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?

In line with our previous responses, we fundamentally question the need to further enhance MMFs' resilience via the identified series of "mechanisms" in the first place, albeit with one notable exception: the reduction of "threshold effects" via **the removal of the explicit link between regulatory thresholds and the potential imposition of fees, gates or temporary suspensions**. In this regard, EFAMA agrees with the FSB's assessment in the consultation report.

In Europe, such mechanism and related representative option should apply only to LVNAV and public debt CNAV fund types, as per the relevant provision (Article 34) of the MMFR[8]. More specifically, although under the MMFR redemption fees and gates are by no means automatic following a fund's board decision to convene and decide the best course of action in the sole interest of investors, we concur that investors have perceived thinning weekly liquid asset (WLA) buffers as an increased probability for a fund board to convene and consequently opt to impose fees or further restrictions on redeeming investors. In other terms, what was well-intended in the post-2008 reforms to act as an additional liquidity buffer to discourage investor redemptions has *de facto* become a hard "floor" both in Europe and in the U.S. where investors may seek to pre-emptively withdraw their funds out of concern that fund boards may successively make this difficult or even temporarily impossible.

Although the MMFR provision of Article 34 has attempted to "break" the link between the two above elements via a "two-part" test – i.e. combining a breach of the 30% WLA ratio with a single net daily redemption in excess of 10% - and offering boards discretion on how to act in the interests of investors, **we believe that such "red line" should be removed and fund boards given full discretion over when to activate fees, gates or temporary suspensions**. We are confident that such option will be considered closely also by the European Securities and Markets Authority (ESMA) in preparing the review of the MMFR in 2022, as well as by the U.S. Securities and Exchange Commission (SEC) in charge of reviewing its existing rules in light of the March 2020 liquidity events.

EFAMA is nevertheless not supportive of the associated "variant" option, i.e. that authorities be in a position to approve the activation of fees and gates. Indeed, as the FSB's assessment points out, such option will not be effective as investors would still be incentivised to redeem pre-emptively in the uncertainty surrounding the timing of a supervisors' intervention. Moreover, we question whether supervisors would be comfortable and willing to assume such responsibility. Instead, MMF managers must abide by their regulatory obligations to act in the best interest of the fund's investors, while being better placed to understand their investors' behaviour, as well as the prevailing money market conditions at any one point in time. For analogous reasons, we are also opposed to the variant option associated with swing pricing, were authorities to mandate it as a macroprudential tool. Naturally, coordination with supervisors around the time such tools are activated remains important, as the March

[8] According to Article 34 of the MMFR, a breach of the 30% weekly liquidity threshold for these two types of funds, if combined with daily net redemptions of 10% of total assets, requires the respective fund boards to review the circumstances and in the interest of the investors pursue one or more measures, including one of taking no immediate action, the activation of liquidity fees, of redemption gates, or even the suspension of redemptions for up to 15 days.

2020 events have demonstrated in the largest European MMF domiciles.

Another mechanism worthy of consideration concerns charging redeeming investors the incremental cost of their redemption. Under existing EU regulation for LVNAV and public debt CNAV funds, following a decision by their respective fund boards, an anti-dilution levy (ADL) in the form of a fee can be applied, calculated as a fixed proportion of the withdrawn amount. Even for VNAV funds, which are not explicitly required under the MMFR to consider them, such liquidity fees would be preferred. In very difficult markets, by transferring the cost of liquidity onto the redeeming investors, such tools allow all investors to be treated equally and fairly, discouraging the so-called "first-mover advantage" in the interest of those investors choosing to remain invested, all while offering managers a more gradual option compared to a "last resort" mean as gates or suspensions.

In comparison to swing pricing, we note that although the latter has proved itself as a useful tool for non-MMF funds, it is not compatible with MMFs. We fully concur with the FSB's assessment in this regard, as the option mainly detracts from the opportunity to offer intra-day settlement which investors greatly value. Instead, in extraordinary circumstances, an ADL/liquidity fee can be used to the same effect for all MMFs, but with at least two key advantages: (i) it is operationally easier to implement, especially where the fee is fixed and is not affected by pricing anomalies as a result of rapidly deteriorating market conditions affecting all market players; and (ii), it does not affect the viability of stable NAV MMFs. We therefore believe that ADLs/liquidity fees should be largely preferred to swing pricing as a representative option for all MMFs.

However, **it is important to note that in the presence of a significant freeze in secondary market trading activities - as experienced in the course of March 2020 – such tools will in any case not alone be fully effective**. Rather, they can be activated when liquidity conditions are less extreme and where MMF managers can still rely on a functioning STFM to sell holdings from their funds. Therefore, for milder episodes of money market stress (i.e. short of a complete freeze), in concomitance with rising costs for the fund to trade the underlying securities, such tool should be made available (as already under the MMFR regime in Europe) to MMFs.

Q8: 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?

In general, we believe that the assessment framework, in its analysis of several policy options and comparison of their respective pros and cons, is extensive, sound and valid. Nevertheless, most of these, at least in their abstract formulation, risk merely addressing a symptom of dysfunctional STFMs (i.e. MMFs) rather than its cause.

Q9: Are the representative policy options appropriate and sufficient to address MMF vulnerabilities? Which of these options (if any) have broad applicability across jurisdictions? Which of these options are most appropriate for public debt and non-public debt MMFs? Are there other policy options that should be included as representative options (in addition to or instead of the current ones)?

As per our earlier considerations, there are fundamentally two "representative options" which have merits to marginally enhance the resilience of MMFs and these could be applied globally in a jurisdiction-neutral manner: (i) the removal of the link between regulatory thresholds and the possible activation of either fees, gates or temporary suspensions; and (ii) liquidity fees (instead of swing pricing). They are also adaptable to any type of MMF structure, from public-debt to non-public debt variations.

We introduce additional options with the aim to improve the functioning of STFMs in our response to Question 17 further below.

Q10: 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?

EFAMA broadly concurs with the summary assessments of each representative option, including their respective pros and cons. However, apart from the two representative options the European industry supports, the remaining ones – potentially combined with their variants – promise to considerably distort investor incentives by artificially altering their choices on where to best put their "cash to work". **Notwithstanding the fact that most of the options do not address the real problems encountered in early 2020 (again, located primarily in the functioning of STFMs), we consider that investors' preferences relative to liquidity, principal stability and yield should not be compromised by too hasty, top-down financial stability considerations.** We therefore invite global policy-makers to exercise greater caution when choosing among the several listed options, also in light of their substantial impact on the issuer (bank) community most of them are directly responsible for.

Q11: 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?

Please refer to our responses above.

Q12: 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?

EFAMA concurs with the FSB on the opportunity to consider complementary measures to the proposed reform options. Stress-testing frameworks and enhancing reporting requirements to authorities are a natural place to start.

As to **stress-testing**, particularly in Europe, the MMFR already counts these among its requirements for EU-based MMF structures. A specific provision (Article 28) requires MMF managers to adopt a stress-testing process at the level of each fund to identify impactful portfolio risks based on severe, but plausible, market scenarios. The provision further offers a list of reference parameters to be considered in the design of the stress-testing methodology, as further specified by ESMA through its *ad hoc Guidelines on stress test scenarios under the MMF Regulation* and updated on an annual basis[9]. Stress tests are conducted at least bi-annually, or more frequently at the discretion of the fund's board of directors or that of the management company. Where the stress test reveals vulnerabilities, the manager shall draw up an extensive report with the results of the stress-test and a proposed action plan. Such report is to be transmitted to the national supervisor, which will share it further with ESMA. Such requirements are sufficiently robust, thereby removing the need for the FSB to consider fund-level stress-tests presently for Europe.

[9] Accordingly, these are (a) hypothetical changes in the level of liquidity of the assets held in the portfolio of the MMF; (b) hypothetical changes in the level of credit risk of the assets held in the portfolio of the MMF, including credit events and rating events; (c) hypothetical movements of the interest rates and exchange rates; (d) hypothetical levels of redemption; (e) hypothetical widening or narrowing of spreads among indices to which interest rates of portfolio securities are tied; and (f) hypothetical macro systemic shocks affecting the economy as a whole. Please also refer to the most recent update to the ESMA Guidelines (December 2020) at the following hyperlink.

Regarding the possibility to accompany these with sector-wide stress tests, mentioned under Box 5 of the consultation report, we express deep reservations. While it is true that MMFs account for a large footprint in European STFMs (especially CP and CD), attempts to draw conclusions by purely aggregating across the large population of non-government MMFs will not yield reliable conclusions on which to base successive policy actions in the absence of more reliable, granular and frequently updated information on MMF investor profiles. These can include, *inter alia*, non-financial corporates, non-profits (charities and foundations), general government and related agencies, monetary financial institutions (MFIs), pension funds and insurance companies, investment funds, other financial institutions (OFIs) and private households. Not all such actors will be equally prone to necessarily redeem at the same time. Although the MMFR's "know your customer" requirement (Article 27) has helped MMF managers substantially to depict a more accurate picture of their funds' liability side, and thus better anticipate investors' regular (quarter-end) redemption demands, further breakdowns of the above broad categories remain difficult.

Given the high degree of heterogeneity in a fund's liability composition, as for instance even within the range of a fund's "corporate clients", parsing through each company's incentive to redeem remains prohibitive, especially given the unforeseen nature of exogenous shocks like the Covid-19 pandemic which has affected corporate clients very unevenly. Our Members' experience has in fact confirmed that among their corporate clients, those most active in the travel and leisure industries naturally faced more severe cash needs, as did those active in areas like catering, compared to corporates in other sectors, where some were actually able increase their MMF allocations (e.g. insurers). Moreover, exhaustively detailed profiling of client types will only yield a partial analysis in terms of their behaviour, as clients may choose to rely on alternatives, as for instance invest in money-market instruments directly, or rely on standing credit facilities as a matter of preference, when looking to raise cash immediately. In hindsight, even a more minute "bucketing" of MMF investors based on their liquidity preferences (apart from seasonal ones) could not have therefore predicted the sorts of withdrawals experienced from corporates in the most affected industries in advance of the March 2020 turmoil. **These reasons therefore lead us to strongly doubt the degree of predictability for any sector-wide stress-test,** even assuming that the evident supervisory data gaps – in particular those concerning MMFs' liabilities – can be filled beforehand. Important is to also consider that significant market events like those of March 2020, or of the previous 2008 global financial crisis, can not only have different sources, but also develop in ways previously unimagined. This beckons the need for market participants and supervisors alike to guard some degree of flexibility when confronting unprecedented market contingencies.

Similarly, even **more frequent reporting requirements** to supervisors (e.g. monthly instead of quarterly) could not have anticipated most outflows because of the suddenness and unevenness of the shock. In addition, from the experience of EFAMA's Members while engaging with their national supervisors in the midst of the March 2020 events, it is often noted how supervisors' access to more frequent (i.e. daily and weekly) market data alone would not have been sufficient for them to form an accurate view of the live contingencies affecting MMFs at the time. In fact, it was only through parallel and timely discussions with management companies that supervisory authorities were able to develop a better understanding of how MMFs and underlying money market conditions were at the time evolving. We therefore do not believe that a requirement to ensure reporting of more frequent information to supervisors would substantially improve supervisors' readiness to anticipate liquidity stresses. Lastly, we consider that authorities should not be in a position to potentially "second-guess" the responsible MMF board/management company over what is in the best interest of an MMF's investors. Instead, as the March 2020 liquidity episode has demonstrated, authorities should exercise their right to request more timely information from managers to monitor the evolution of the market, as well as more specific client information when needed.

Alternatively, EFAMA strongly supports greater **disclosure and reporting requirements on STFM conditions** to the benefit of the broader money market environment by involving issuers and dealers, thereby also enhancing data availability for supervisory and policy purposes. As correctly noted in the consultation report, (…) *MMF reforms by themselves will not likely solve the structural fragilities in*

STFMs. We discuss these options in our answer to Question 17 below.

CONSIDERATIONS IN SELECTING POLICIES

Q13: Are the key considerations in the selection of policies to enhance MMF resilience appropriate? Are there other considerations that should be mentioned?

Despite our disagreement with the conclusion that the March 2020 central bank interventions “supported” the MMF sector, the FSB’s considerations between prioritising and combining MMF policy options under Section 6 of the consultation report follow a reasonable logic. Yet **the manner in which local or regional (as the EU) jurisdictions will choose to prioritise and combine the options risks having profound transformative effects well beyond the reality of MMFs**. In its worst form, a non-informed combination of such options – representative ones, coupled or not with their variants – will deal a considerable blow to an efficient, cost-effective and diversified form of market-based financing for corporates of all types, especially financial ones in Europe. Representative options as capital buffers, limits on eligible assets and additional liquidity requirements with escalation procedures, combined with a liquidity exchange bank, countercyclical liquidity buffers and the removal of non-government MMF variants, promise to deliver this outcome if principal stability becomes the sole desired policy outcome. Short-term financing would return to be exclusively bank-centric, absent other scalable alternatives, with a negative knock-on effect on banks’ capital ratios.

On their part, investors would need to invest their excess cash reserves in a far less diversified manner with increased portfolio risks, while suffering notable performance drags from having considerable portions of their portfolio invested in ultra-short-term maturities, or government debt, as a result of additional and bank-like regulatory thresholds. Regarding the latter, more specifically, we note that the prospect of introducing additional calibrations tied to regulatory thresholds implied by some of the above options will only perpetuate investors’ reliance on the types of “red lines” or “cliff-edge” triggers that the policy-making community is trying to solve. In addition, the prospect of having to invest in a very narrow and low- (where not negative-) yielding sovereign debt market, following the potential removal of non-government debt MMFs, is perhaps even more daunting to corporate treasurers and to the wider investment community, especially in Europe.

To EFAMA the choice over how to prioritise and combine the different options should be of secondary importance to the policy-making community. Instead, what in our view remains critical is how different jurisdictions intend the functions of MMFs going forward, or in other terms, how they will opt between considering MMFs as a pure “cash-like” *versus* a short-term investment vehicle. Our Members and the investment community at large clearly support this latter notion.

Q14: 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?

Consistent with our answer to Question 7, we confirm that the removal of the explicit link between regulatory thresholds and the potential imposition of fees and gates on redeeming investors should be preferred, possibly combined with an anti-dilution mechanism – the liquidity fee – where these have not been formalised into legislation or regulations already. We also care to note that, unlike in the U.S., Europe’s MMFR regime has also introduced an explicit ban on sponsor (or “external”) support (Article 35), where third parties may seek to guarantee the liquidity of the MMF, or sustain its NAV. In our recent response to ESMA's consultation on potential MMFR reform options, EFAMA continues to uphold the validity of this provision.

As a necessary complement to the above recommendations, we strongly support further global policy work, accompanied by more tangible reform options, in relation to the functioning of STFMs. We address these in more depth in our answer to Question 17 further below.

Q15: 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?

Besides a few common features – i.e. MMFs being globally recognised as cash-equivalent, short-term investment vehicles, offering investors a choice between a more stable (but lower yielding) government debt exposure *versus* a potentially slightly more volatile (but higher yielding) one – **MMFs will need to be reviewed in light of their jurisdiction- and market-specific characteristics**. As the consultation report has highlighted, there are indeed considerable differences across jurisdictions enough to rule-out any one-size-fit-all policy exercise, where notable differences in terms of investor profiles, currency and available alternatives exist.

Considering a minimum set of policies, viable at least for the two largest MMF markets worldwide (the U.S. and Europe) is certainly the removal of the explicit link between MMF weekly liquid assets (WLAs) and the potential imposition of liquidity management tools by the funds' boards/management companies. Other options (representative and/or variant), as already noted, necessarily present considerable downsides and will not work to preserve non-government MMFs as a product of choice for issuers and investors alike. This is particularly true in the case of Europe, where investors will not be served by having more of their cash reserves invested in short-term government debt, especially if denominated in Euro or Sterling.

As we elaborate in our answers to the following questions, there is necessarily a need to consider reviewing the current global Basel rules on ways to mitigate the balance sheet costs for bank dealers to be active in STFM intermediation, including that of CP in any reasonable size and irrespective of credit quality, at times of stress.

SHORT-TERM FUNDING MARKETS (SFTMS)

Q16: Does the report accurately describe problems in the structure and functioning of STFMs and how these have interacted with MMFs in stress periods?

Insofar as the structure and functioning of STFMs is concerned, we consider the consultation report to be accurate in its general representation of the key concerns at stake, including the effect of prudential requirements in determining dealer behaviour (Box 3), in reporting relevant underlying CP and CD market data (Box 5), as well as drawing out some measures worthy of further consideration for CP and CD markets, i.e. changes in microstructure, increased transparency and reporting (Box 6).

We nevertheless disagree with the FSB's summary conclusions that, *however, it is not clear that such measures would alter the characteristics of these markets that give rise to illiquidity during stress times*.

Q17: 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?

As per our response to Question 6 above, we wish to reiterate that MMFs do not operate in a vacuum and that their ability to dispose of portfolio assets to meet redemptions necessarily depends on the prevailing STFM conditions prevailing at any one point in time. That such conditions have far greater relevance than the FSB consultation report assumes can be testified by the swift resumption in the secondary market bidding process upon the announcement of the ECB 's operational relief measures on 12 March 2020, i.e. six days before the official release of the PEPP[10]. These were followed by those of the European Banking Authority (EBA) through guidance to avoid triggering non-performing loan (NPL) criteria. By easing these restraints, dealer banks were progressively able to resume their role as liquidity providers in STFMs, while banks resumed bidding in the CP market, also by buying back their own. Besides the PEPP, further measures to support those banks linked to household and non-financial corporate lending came in the form of targeted longer-term refinancing operations (TLTRO III)[11], followed by series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) as from 30 April 2020[12]. These measures prove that the recovery of STFMs (for the Eurozone at least) was underway even before the main pillar of official sector interventions in Europe – the ECB's PEPP – was officially announced. These earlier measures should therefore be credited for the gradual resumption of STFM trading, more than the effects of the PEPP whose scope was limited and took several weeks to trickle through as a result of the ECB/Eurosystem's lesser familiarity with the CP asset class compared to others.

The following options encapsulate what we consider to be minimum requests in view of redressing the functioning of STFMs during times of stress:

I. **Review Basel III dealer capital treatments**
On the back of our above considerations, a starting point for prudential supervisors and FSB Members would be to review the treatment of short-term money market instruments for the purposes of meeting bank capital requirements during times of stress. We advocate in particular that the relevant Basel III standards, particularly the definitions of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), be reviewed as these are material to dealer banks' exposures to short-term money markets in view of their corresponding balance sheet costs and with important knock-on effects – as observed in March 2020 – on money market liquidity at times of stress . For instance, under the Basel III framework, banks are required to hold a certain amount of High Quality Liquid Assets (HQLA) to meet their Liquidity Coverage Ratio (LCR). HQLA have the general characteristics of being low risk, easily valued, listed on an exchange, benefitting from an active and sizeable market, and exhibiting low volatility. In Europe, the relevant implementation of the LCR Basel III standard via the Capital Requirements Regulation (CRR) – Regulation (EU) No 575/2013 and accompanying delegated acts and relevant (EBA) Guidelines - defines three categories of HQLA: level 1, level 2A, and level 2B liquid assets. Level 1 are the most liquid, as cash or highly rated sovereign

[10] These allowed banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), their capital conservation buffer (CCB) and their liquidity coverage ratio (LCR). Supporting these measures, banks' countercyclical capital buffers (CCyB) were also relaxed by the national macroprudential authorities. In addition, banks were permitted to waive Common Equity Tier 1 (CET1) capital conditions in view of meeting their Pillar 2 requirements. For further details, please refer to the relevant ECB webpage.

[11] For further details, please refer to the relevant ECB webpage.

[12] The latter envisaged liquidity support to the Euro area money markets by providing an effective backstop following the expiry of the longer-term refinancing operations (LTROs). Eligible counterparties participating in PELTROs would be able to benefit from the collateral easing measures until the end of September 2021. These included an increase from 2.5% to 10% in the maximum share of unsecured debt instruments issued by any single banking group in a bank's collateral pool, as announced previously already by the ECB Governing Council on 7 April. For further details, please refer to the relevant ECB press release.

debt issued in own currency. Some types of CP are already considered to be level 2A and others are level 2B. Yet, we believe that authorities could review these definitions to be able to classify more of the most highly rated CP and CD instruments as HQLA (level 2A), thus proving beneficial to overcome banks' reluctance to buy such assets, especially in times when liquidity is in strong demand. In turn, this would reduce the need for central banks and public authorities to have to intervene on an *ad hoc* basis and as soon as secondary market liquidity begins to evaporate; and

II. **Improving coordination and transparency in STFMs**
In the experience of European MMF managers, conditions for asset eligibility under the ECB's PEPP were not sufficiently defined, nor adequately disclosed by some of the six participating Eurosystem central banks. In addition, MMF managers noted that some national central banks' market operations were uncoordinated and proved uneven, especially in terms of not standardising the eligibility of various money market instruments. In this regard, better coordination between central banks – both between the ECB and the Eurosystem national central banks, as well as between the ECB and its non-Eurozone peers - and a greater degree of transparency around the operational details of future purchase programmes *vis-à-vis* market participants is desirable.

As a first step, EFAMA would be supportive of initiatives aimed at creating a specific trade repository for easily accessible data, enabling a view of issuers' outstanding volumes and displaying the characteristics of the short-term paper issued (e.g. nature, eligibility, maturity, ISIN, sector, etc.). A following step could consist in creating a European regulated market for Euro-denominated CP, with better transparency on pricing, issuance and secondary market volumes, including the opportunity for such CP to be eligible as collateral with the ECB. Initiatives as those of negotiable European commercial paper (NEU CP) and of negotiable European medium-term notes (NEU MTNs) proposed by the *Banque de France* in the context of reforms in 2016[13] or the deepening of the market-led STEP initiative, are particularly valuable in this regard[14].

ADDITIONAL CONSIDERATIONS

Q18. Are there any other issues that should be considered to enhance MMF resilience?

We again regret the fact that in the scarce time offered to respond to this consultation report, market participants have not had sufficient time to formulate and/or mature their initial thoughts around more comprehensive STFM reforms. Effectively, only the latter will offer a long-term solution to the liquidity challenges encountered in the first half of March 2020.

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[13] Please refer to the following hyperlink for further information.

[14] The latter is managed by the European Money Markets Institute and has celebrated its 15th anniversary in June this year. More information is available at the following hyperlink.

About EFAMA

EFAMA, the voice of the European investment management industry, represents 28 member associations, 58 corporate members and 24 associate members. At end Q1 2021, total net assets of European investment funds reached EUR 19.6 trillion. These assets were managed by more than 34,600 UCITS (Undertakings for Collective Investments in Transferable Securities) and almost 29,600 AIFs (Alternative Investment Funds). At the end of 2020, assets managed by European asset managers as investment funds and discretionary mandates amounted to an estimated EUR 27 trillion.

More information is available at www.efama.org.

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