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August 13, 2021

FSB Technical Expert Group on Money Market Funds
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Policy Proposals to Enhance Money Market Fund Resilience

Dear Mr. Hyun Song Shin and Ms. Sarah ten Siethoff:

The Institute of International Finance (IIF) [1] and its member firms welcome the opportunity to contribute to the work of the Financial Stability Board (FSB) on potential reform measures for Money Market Funds (MMFs), as highlighted in the *Consultation Report: Policy Proposals to Enhance Money Market Fund Resilience* (Consultation Report). [2] This Consultation Report is a significant contribution to the efforts undertaken, both at the global level and at jurisdictional levels, to enhance the non-bank financial intermediation (NBFI) sector while preserving its benefits.

The IIF commends the work to date on the initiatives of the FSB and other global standard setters for the NBFI sector. In response to the disruptions in and significant redemptions from MMFs that began in the autumn of 2007 and culminated in the autumn of 2008 in response to a credit crisis, the FSB called upon the International Organization of Securities Commissions (IOSCO) to undertake a review of potential regulatory reforms of MMFs, which resulted in several sets of policy recommendations in 2012. [3] Major jurisdictions have now adopted the IOSCO recommendations to promote the smooth functioning and resilience of MMFs in their region. These efforts have contributed significantly to the mitigation of risks identified in the Great Financial Crisis (GFC) and to the resilience of MMFs and short-term funding markets (STFMs). However, the unprecedented COVID-19 crisis, which gave rise to pandemic-related uncertainties and a 'dash for cash,' has revealed some further structural vulnerabilities in MMFs and STFMs that should be addressed through a holistic review of the impact of market structure on the

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[1] The Institute of International Finance is the global association of the financial industry, with more than 450 members from more than 70 countries. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial, and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, sovereign wealth funds, hedge funds, central banks, and development banks.
[2] FSB 2020. *"Policy Proposals to Enhance Money Market Fund Resilience"* (June)
[3] IOSCO 2012. *"Policy Recommendations for Money Market Funds"* (October)

resilience of MMFs and STFMs, taking into account important differences in market and product structure and market specificities across jurisdictions. Importantly, this review should not focus solely on the MMF sector; rather, the FSB should also consider the functioning of certain underlying STFMs and, in particular, the commercial paper (CP) market, as well as the activities of a broad range of market participants, including asset managers, dealers, and institutional and retail customers. The Consultation Report focuses on the impact of MMFs on the STFMs and markets more broadly during the 2020 market disruptions. We also encourage the FSB to consider the volatility in the STFMs that impacted MMFs during this episode of market stress.

The FSB should consider the impact of its proposed policy measures on MMFs, the underlying STFMs and on market participants. Policy measures that would have the effect of shrinking MMF markets could have a negative impact on the resilience of STFMs and certainly would not benefit many investors who rely on MMFs as an important part of their investment portfolios.

We believe that a holistic review of the MMF sector, the underlying STFMs, and market participants, and a careful assessment of the impacts of policy proposals on each of these constituent groups could produce targeted and proportionate measures that address the root causes of market instability in order to mitigate future disruptions similar to the March 2020 market turmoil.

We appreciate the attention that is being given at the global, regional, and jurisdictional levels to these important issues of market and product structure. While the IIF has long expressed concerns about the potential for various policy initiatives to lead to regulatory fragmentation, conflicting or duplicative regulation or supervision, or potential barriers to market access or to a level playing field, we do recognize that MMF market and product structure differences may make it difficult to implement fully harmonized global standards for MMFs. It may, however, be possible to achieve some level of harmonization in respect of reforms that address issues that are similar across jurisdictions (e.g., the decoupling of regulatory thresholds and redemption fees) and in adopting some common terminology with the goal of facilitating a common language among regulators and market participants.

The IIF appreciates FSB's openness to seek public comment on the Consultation Report. We remain committed to active participation and engagement in the discussion of potential reforms to MMFs and STFMs.

Sincerely,

Andrés Portilla
Managing Director, Regulatory Affairs
Institute of International Finance

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?

A1: We generally agree with the statements in the Executive Summary of the Consultation Report that MMFs are *"susceptible to sudden and disruptive redemptions"* as *"regulatory thresholds for some MMFs may cause investors to pre-emptively redeem to avoid the consequences of a fund crossing those thresholds (cliff effects), while certain types of investors (notably institutional investors) may amplify redemption risks".* However, we note that concerns about sudden and disruptive redemptions should be focused exclusively on non-government MMFs.

While we support the FSB's focus on potential reforms to MMFs that would mitigate pre-emptive redemptions, it is important to acknowledge and reflect in any measure the fact that the ease of redeemability of MMFs is a key attribute and one of the most important features that MMF investors value. Any structural change to this ease of redeemability would dramatically change the product and may cause investors to no longer consider the product to meet their needs. We are of the view that, while the MMF investor redemptions and liquidity pressures experienced during March 2020 are important vulnerabilities, the FSB should take a holistic approach that encompasses the MMF sector, the underlying STFMs and the full range of participants in those markets.

Moreover, in our view, the key issue during the March 2020 market disruption was not the low volume of MMF transactions but the fact that some of the underlying STFMs became one-way markets and market liquidity was severely constrained under stress. While the outflows from the MMFs were significant and visible during the March 2020 market turmoil due to the opacity of the MMF sector, the STFMs, including the CP and certificate of deposit (CD) markets, experienced liquidity pressures during the March market turmoil.

The FSB should consider the impact of its proposed policy measures on MMFs, the underlying STFMs and on market participants. Policy measures that would have the effect of shrinking MMF markets could have a negative impact on the resilience of STFMs and certainly would not benefit many investors who rely on MMFs as an important part of their investment portfolios.

We encourage the FSB to consider the impact of market structure on the resilience of the STFMs and to propose a comprehensive set of reforms that would improve STFM functioning and increase STFM resilience to a range of possible future disruptions arising from different sources or catalysts. We appreciate the FSB's acknowledgement that MMF reforms by themselves will not likely solve the structural fragilities in STFMs, including specifically, the CP and CD markets.

The FSB's review should take into consideration the differences in markets, product structure and regulatory requirements across jurisdictions, as well as other market specificities. We encourage the FSB to recognize the cross-border impacts of MMFs and STFMs; for example, the large U.S. public debt market significantly impacts markets in the European Union (EU).

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?

A2: We believe that the removal of ties between regulatory thresholds and the imposition of redemption fees would be effective in enhancing the resilience of MMFs. While liquidity requirements are intended to operate as a buffer, these requirements can act as a 'bright line' cliff that incents investors to redeem prior to the imposition of redemption fees. Moreover, liquidity requirements can incent funds to hold liquidity in excess of requirements, further constraining market liquidity.

To address the "dash for cash" that occurred in certain MMFs in March 2020, the FSB should allow MMF governing bodies greater flexibility and discretion to impose redemption fees by decoupling fees from the weekly liquid asset requirement. A MMF's board or governing body could make a determination that the imposition of redemption fees would be in the best interests of the fund and its investors without that determination being tied to a certain level of liquidity. Similarly, fund boards could determine that a gate should be imposed in order to facilitate an orderly liquidation of a fund.

Lowering liquidity requirements during a time of stress would send a signal to the market that liquidity buffers are intended to be used. As a result, investors are likely to be less concerned about the potential imposition of redemption fees. This option could be considered in conjunction with decoupling the link between liquidity requirements, including daily and weekly liquidity asset requirements, and redemption fees and in conjunction with providing fund boards or governing bodies with greater discretion to determine the appropriate response to market disruptions. To provide investors with greater certainty about the circumstances that would lead to the imposition of redemption fees, fund boards should be strongly encouraged to disclose their policies with respect to the liquidity levels at which fees could be imposed, taking into consideration fund's unique composition and risk profile. Fund boards should be encouraged to consider and reflect in their policies multiple measures of fund liquidity.

In general, we encourage the FSB to prioritize options that could be implemented on a wide scale or globally in order to reduce the risks of regulatory fragmentation.

We also encourage a broad focus on market structure rather than a focus on one element of the market or on specific types of market participants.

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?

A3: We are in general agreement with the statements in the Executive Summary of the Consultation Report that "*The structure of the CP and CD markets makes them susceptible to illiquidity in times of stress…even in jurisdictions where MMFs are large investors in CP and CDs, MMF reforms by themselves will not likely solve the structural fragilities in STFMs".* We believe that global efforts to improve the overall resilience and liquidity of STFMs would not only improve the functioning of MMFs but would benefit markets and the economy more broadly.

We do not believe that liquidity strains can be addressed simply by requiring MMFs to hold more liquid assets, as even U.S. Treasuries came under pressure during the March 2020 market turmoil. In the EU markets, these liquidity pressures can be even more pronounced as the EU markets are more fragmented, and often with lower depth.

A broader issue that the FSB should consider is the need for MMFs to maintain liquidity in excess of the 30% weekly liquid asset requirement to bolster resilience and to assure investors that they will not encounter redemption gates. During the March 2020 market turmoil, if fund managers had been able to deploy this excess liquidity, it would have been considerably easier to meet the increased demand for cash.

Please see our response to Q9, where we further explore the merits of a countercyclical liquidity buffer.

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?

A4: The Consultation Report generally describes in an accurate manner the structure, function, and role of MMFs. However, we reiterate that, in our view, during the March 2020 market disruption, the key issue was not the low volume of MMF transactions but the fact that, under stress, some of the underlying STFMs became one-way markets and market liquidity was severely constrained.

The Consultation Report focuses on the impact of MMFs on the STFMs and markets more broadly during the 2020 market disruptions. We also encourage the FSB to consider the volatility of the STFMs that impacted MMFs during this episode of market stress.

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?

A5: Sections 2.4 and 4.2 of the Consultation Report generally describe potential MMF substitutes but the impacts on investors and borrowers could be further explored. The analysis of investor and borrower behavior in conjunction with potential policy proposals could provide further insights into whether potential substitutes are economically viable for investors and borrowers, and into the impact of potential reforms on MMFs and STFMs.

The FSB could further examine potential MMF substitutes in light of their ability to meet important investor protection goals. If MMFs become less available, retail investors might shift funds into riskier and less transparent products. A lack of transparency would also make it more difficult to regulate these substitute products. If STFMs are similarly contracted, borrowers could face higher borrowing costs and less favorable terms and conditions from substitute sources of funding.

The FSB could also consider the implications of potential substitutes in relation to other regulatory requirements. For example, liquidity moving out of MMFs and flowing into bank balance sheets could potentially constrain banks' activity as banks would need to manage this increase in risk assets while complying with regulatory thresholds, including liquidity coverage ratios and leverage ratios.[4]

We would also suggest that the FSB consider the financial stability implications of risk moving out of the MMF sector to a substitute market. Without the needed structural changes to the underlying STFMs, any reforms that would have the effect of shrinking the MMF sector could simply transfer the risks observed during the March 2020 stress period from the MMF sector to the substitute markets without solving the underlying problems.

Finally, in our view, the preliminary analysis of the potential substitutes for MMFs highlighted in Section 2.4 of the Consultation Report indicates that these substitutes may not be as readily available or interchangeable, nor would they offer the same utility to investors. For example, direct investment in money market instruments is not an option for many investors, as they are unlikely to possess the necessary capacity, resources, or investment expertise. For investors that can invest directly, they will no longer be able to avail themselves of the laddered maturity or risk diversification offered by MMFs. In addition, the Consultation Report posits the use of public debt MMFs as an alternative to non-public debt funds. Notwithstanding the comparatively lower yield offered by public debt MMFs, which may deter certain investors, a more material issue is supply-side constraints, particularly in Europe. Furthermore, we do not believe that short-term bond funds would be appropriate substitutes for non-public debt MMFs as short-term bond funds are less liquid than MMFs and, thus, would not meet many investors' liquidity expectations, as well as potentially exposing investors to higher credit risk.

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?

A6: In general, we agree with the findings made by the Consultation Report. In Section 3.1 of the Consultation Report, the FSB acknowledges: *"The large redemptions (and runs) on non-public debt MMFs in 2008 were triggered by a credit crisis…In contrast, in 2020, redemptions arose from a liquidity event (the "dash for cash"), which resulted from pandemic-related uncertainties and increased cash demands from corporations and other investors"*. In our view, this distinction is important in identifying the root causes of the March 2020 market turmoil and differentiating them from the factors underlying the market disruptions during the GFC.

[4] Again, we note that the concern about outflows from MMFs should be limited to non-government MMFs. In our view, a shift from prime to government MMFs would not be a cause for concern.

The post-2008 reforms contributed significantly to the mitigation of risks identified in the GFC, but the March 2020 market turmoil was caused by a different set of circumstances that requires a response tailored to those circumstances; that is, the unprecedented COVID-19 crisis revealed further structural vulnerabilities in MMFs and STFMs. Hence, we caution against simply comparing the two episodes of market disruption.

We also note that we have a different view on the Consultation Report's finding in Box 3 that the *"The uncertainty may have reduced dealer appetite for intermediation".* Dealer inventory in March 2020 reflected the level of market activity, dealer capacity, and the difficulty of refinancing maturing CP issuances, rather than the appetite of dealers. Box 3 appropriately notes that, at least in some cases, dealer balance sheets expanded substantially in March 2020 to accommodate liquidity demands from investors. The FSB also acknowledges that, in March 2020, dealers were facing demands on liquidity in other parts of their business. We encourage a shift from a narrow focus on dealer behavior and incentives to a broader focus on the full range of market participants and an overall focus on market structure.

In Section 2.2 of the Consultation Report, the FSB acknowledges: *"Dealers typically are not active in making secondary markets for CP and CD instruments, even under normal market conditions. Investors, including MMFs, tend to buy and hold these instruments to maturity and often reinvest the proceeds of maturing assets in the obligations of the same issuers. As a result, trades in the secondary market are less common, and there is limited demand for dealer intermediation services under normal market conditions".* The report of the President's Working Group of Financial Markets in the U.S also highlighted that dealers in CP markets (as well as issuing dealers and banks) *"have not had a substantial role in making secondary markets in CP and other private short-term debt instruments that prime MMFs hold."* and that *"there was no reason to expect dealers to take a materially increased intermediation role in these assets in March [2020]".*[5]

More fundamentally, we believe that the Consultation Report underestimates the robustness of the MMF sector during the March 2020 market turmoil. The MMF industry met in full a record level of redemption requests during this challenging period. Despite the significant liquidity strains, we are not aware of any breaches of applicable regulatory thresholds among the major MMFs. IOSCO has also stated in its thematic note that *"[d]espite the strains faced by non-public debt MMFs in March…it appears that all redemptions have been honoured, no MMFs have suspended redemptions, imposed fees and/or gates, or converted from LVNAV to VNAV."*[6] We believe that these factors have contributed to maintaining a high level of confidence in the industry among market participants that the FSB should reflect in its findings and policy recommendations.

[5] PWG 2020. *"Overview of Recent Events and Potential Reform Options for Money Market Funds"* (December)
[6] IOSCO 2020. *"Money Market Funds during the March-April Episode"* (November)

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?

A7: We believe that the Consultation Report covers some important mechanisms to enhance MMF resilience, but we encourage the FSB to further assess the pros and cons of the proposed measures to determine the optimal measure(s) for addressing the liquidity events observed in March 2020. Please refer to our answers to Q9 and Q11.

Furthermore, we believe that a holistic review of MMFs, underlying STFMs and market participants could produce targeted and proportionate measures that would address the root causes of the March 2020 market turmoil.

We also encourage the FSB to consider the role of MMF's own stress tests and scenario analyses in enhancing resilience. Differences among funds and their regulatory requirements, shareholder composition and historical performance and behavior render standardized, market-wide undifferentiated stress tests or scenario analysis of limited utility. These differences could result in aggregated results that are misleading and unreliable. The scope and calibration of any stress test or scenario analysis should reflect the fund's unique composition and risk profile as well as historical shareholder behavior. It should also recognize the range of liquidity risk management tools that are available to address redemption requests under stressed market conditions.

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?

A8: We believe that the assessment framework covers most of the aspects relevant to MMFs. However, the current framework is strongly focused on the MMFs themselves and does not consider the broader structure of the underlying STFMs or the broad range of market participants. A holistic review that includes the market structure and potential sources of instability of STFMs is more likely to produce recommendations and potential reforms that address the root causes of the liquidity stress observed during the March 2020 market turmoil. This review should take into account differences in markets, product structure and regulatory requirements across jurisdictions, other market specificities, and the cross-border impacts of activities in key markets.

The FSB should consider the impact of its proposed policy measures on MMFs, the underlying STFMs and on market participants. Policy measures that would have the effect of shrinking MMF markets could have a negative impact on the resilience of STFMs and certainly would not benefit many investors who rely on MMFs as an important part of their investment portfolios.

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)?

A9:

Removal of ties between regulatory thresholds and imposition of fees and gates

We believe that the removal of ties between regulatory thresholds and the imposition of redemption fees would be effective in enhancing the resilience of MMFs. While liquidity requirements are intended to operate as a buffer, these requirements can act as a 'bright line' cliff that incents investors to redeem prior to the imposition of redemption fees. As a result, funds are incented to hold liquidity in excess of requirements, further constraining market liquidity.

To address the "dash for cash" that occurred in certain MMFs in March 2020, the FSB should allow MMF governing bodies greater flexibility and discretion to impose redemption fees by decoupling those fees from the weekly liquid asset requirement. A MMF's board or governing body could make a determination that redemption fees would be in the best interests of the fund and its investors without that determination being tied to a certain level of liquidity or that a gate should be imposed in order to facilitate the orderly liquidation of the fund. More broadly, an MMF's board or governing body could make a determination that various measures designed to disincentivize pre-emptive redemptions are in the best interests of the fund and its investors.

In order to provide investors with greater certainty about the circumstances that would lead to the imposition of redemption fees, fund boards should be strongly encouraged to disclose their policies with respect to the liquidity levels at which fees could be imposed, taking into consideration fund's unique composition and risk profile. Fund boards should be encouraged to consider and reflect in their policies multiple measures of fund liquidity.

Swing pricing

We believe that swing pricing would not have materially reduced redemption activity during the March 2020 market turmoil. Swing pricing is dependent upon several factors, including bid/offer spread, transaction costs, and overall redemption activity that is unknown to the redeeming investor. It is also unclear the extent to which an additional charge would impact investor behavior – particularly the behavior of institutional investors.

Moreover, swing pricing is operationally complex for many MMFs, which would need to substantially revise their operational and management infrastructure. A T+0 settlement feature, which is critical to investors in many MMFs, would make the implementation of swing pricing very challenging as it may not permit sufficient time for price discovery in the underlying securities, which is needed in order to calculate an appropriate swing factor. This is especially the case during a stress period where there is no bid for the underlying assets (as was observed in the CP market in March 2020). This timing issue is magnified for MMFs that strike their NAVs multiple times per day, as there would not be sufficient time to implement a swing factor between NAV cutoffs.

We also believe that there would be major challenges in calibrating a swing price in a manner that internalizes transactional costs for redeeming investors, as the cost/benefit equation can change over time and shift rapidly in times of stress.

Given the operational challenges and impracticality of swing pricing, we favor the consideration of liquidity fees or anti-dilution levies (ADLs), which are already operationally feasible in many MMFs. Liquidity fees or ADLs provide the same effect of directing costs to redeeming shareholders with fewer implementation challenges and impediments. However, the potential for these measures to create negative sentiment among MMF shareholders should not be overlooked.

Minimum balance at risk (MBR)
We strongly oppose the adoption of a MBR requirement for MMFs, as this would change the product characteristics of MMFs significantly and may drive investors and intermediaries away from MMFs to unregulated or less regulated investment products. Further, as Section 4.3.1.2 of the Consultation Report correctly acknowledges, an MBR would not be likely to reduce the volume of large redemptions due to normal increases in the demand for liquidity during stressed periods. The imposition of an MBR also would not mitigate first mover advantages.

As noted in the Consultation Report, MMF managers, sponsors and intermediaries would be required to make significant operational adjustments to convert existing systems in order to calculate, restrict and hold back the MBRs.

The fundamental changes introduced by an MBR would lead to confusion among MMF investors and could reduce investors' overall participation in the MMF market, leading to the instability of the MMF sector.

Capital Buffers
We do not favor the imposition of additional capital buffers. We believe that the imposition of additional capital buffers would substantially increase the costs of MMFs and, thus, render MMFs less able to perform their important role of funding a wide range of market participants (with different credit risk profiles) and facilitating maturity transformation. Returns to MMF investors would be negatively impacted by the costs of establishing and maintaining the buffer. The imposition of a large mandatory capital buffer would fundamentally change and could potentially destabilize the MMF market and the MMF sector.

Moreover, capital buffers would not address the root causes of liquidity pressures under market stress, nor would they mitigate first-mover advantage.

We note that this option was considered and rejected in the course of earlier reforms. Fundamentally, the imposition of capital buffers creates a form of 'guarantee' that is not appropriate for MMF instruments and is not reflected in current pricing structures.

Removal of stable NAV

We question whether a floating NAV requirement would have addressed the root causes of the March 2020 market turmoil. We note that some floating NAV MMFs faced high rates of redemption in the March 2020 market disruption. A floating NAV does not necessarily remove first-mover advantage, as early redeemers are likely to receive a better price than later redeemers in a stressed market. We also note that the conversion of all MMFs to a floating NAV could negatively impact the size and liquidity of the market for MMFs and reduce demand from both issuers and investors. Accordingly, we do not favor this option.

Limits on eligible assets

We note that many jurisdictions have already implemented restrictions on the types of assets that MMFs are permitted to hold. It is likely that further limits on eligible assets would have to be imposed at the jurisdictional level.

Limits on eligible assets could have negative knock-on effects on issuers dependent on the STFMs, constraining their ability to obtain funding at the tenors they need. Investors in MMFs subject to limits on eligible assets would likely experience lower returns, as the FSB has acknowledged, and may shift to alternative instruments. The FSB has characterized this likely shift as 'modest', but it may in fact be more pronounced and disruptive to both investors and the MMF industry. This option also presents the risk of increasing the similarity of MMF portfolios, which may lead to simultaneous selling of these instruments andcreate liquidity issues during stressed periods.

As noted in our response to Q3, the FSB should consider the impact of the 30% weekly liquid asset requirement in times of market stress when cash demands increase substantially. During the March 2020 market turmoil, deployment of this excess liquidity could have helped to meet the increased demand for cash, thus relieving some of the market strains.

We also note the limited beneficial impact of simply requiring MMFs to hold higher levels of liquid assets, as even some U.S. Treasuries came under pressure during the March 2020 market turmoil, as has been recently noted by the G30[7], among others.

Additional liquidity requirements

We generally do not favor the imposition of additional liquidity buffers. We believe that the imposition of additional liquidity buffers would substantially increase the costs of MMFs and, thus, render MMFs less able to perform their important role of funding a wide range of market participants (with different credit risk profiles) and facilitating maturity transformation. Returns

[7] G30 Working Group on Treasury Market Liquidity 2021. U.S. "Treasury Markets: Steps Toward Increased Liquidity" (July)

to MMF investors would be negatively impacted by the costs of establishing and maintaining the buffer.

On the other hand, lowering liquidity requirements during a time of stress would send a signal to the market that liquidity buffers are intended to be used. As a result, investors are likely to be less concerned about the potential imposition of redemption fees. This option could be considered in conjunction with decoupling the link between liquidity requirements, including daily and weekly liquidity asset requirements, and redemption fees and in conjunction with providing fund boards or governing bodies with greater discretion to determine the appropriate response to market disruptions. In order to provide investors with greater certainty about the circumstances that would lead to the imposition of redemption fees, fund boards should be strongly encouraged to disclose their policies with respect to the liquidity levels at which fees could be imposed, taking into consideration fund's unique composition and risk profile. Fund boards should be encouraged to consider and reflect in their policies multiple measures of fund liquidity.

Escalation procedures
In lieu of regulatory-mandated escalation procedures, we encourage the FSB to consider allowing fund boards or governing bodies greater discretion to use these tools. Providing greater discretion to fund boards or governing bodies would allow for targeted measures that respond to the specific circumstances giving rise to liquidity pressures. Regulatory-mandated tools may not be sufficiently nimble to respond to changing market conditions in a timely manner.

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?

A10: Please refer to our answer to Q9.

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?

A11:
Variant option: authorities approving activation of fees and gates
We do not favor the option of requiring funds to obtain permission from regulatory authorities or to notify those authorities prior to imposing fees or gates. Fund board or governing bodies need the flexibility to react quickly in a stress event and a requirement to pre-clear actions in response to market stress could render those actions ineffective. In the absence of a mandated course of action in the event of market stress, fund boards generally could be expected to consider a broad range of responsive measures and to tailor those measures to the needs of the fund and its investors.

Variant option: countercyclical liquidity buffer
We support setting up countercyclical liquidity buffers as a variant to reduce threshold effects. Lowering regulatory liquidity requirements during a time of stress would send a signal to the market that liquidity buffers are intended to be used. As a result, investors are likely to be less concerned about the potential imposition of redemption fees. The FSB could consider this option in conjunction with decoupling the link between liquidity requirements and redemption fees and in conjunction with providing fund boards or governing bodies with greater discretion to determine the appropriate response to market disruptions. In order to provide investors with greater certainty about the circumstances that would lead to the imposition of redemption fees, fund boards should be strongly encouraged to disclose their policies with respect to the liquidity levels at which fees could be imposed, taking into consideration fund's unique composition and risk profile. Fund boards should be encouraged to consider and reflect in their policies multiple measures of fund liquidity.

The variant that would set each MMFs required liquidity buffer based on its own characteristics and the results of its stress tests is an interesting concept to explore but one that would be operationally complex to implement, at least at the current time.

Variant option: limit MMFs to public debt MMFs
The variant that would restrict MMFs to government MMFs would, in our view, have a profoundly disruptive impact on the industry, on issuers and on investors and would increase private sector funding costs. This variant would change the fundamental nature of the MMF industry and market in ways that have not been fully explored.

Variant options: liquidity-based redemption deferrals, non-daily dealing, and redemptions-in-kind
Liquidity based redemption deferrals, non-daily dealing, increased notice periods and redemptions-in-kind would change the fundamental cash equivalent nature of many MMFs and would likely cause significant disruption to the industry and its investors, at least in the short term. We encourage the FSB to consider options that are less likely to lead to significant disruptions in the industry and substantial changes in investor preferences and behavior before considering more drastic measures.

Other variants that have been identified by standard setters and regulators include sponsor support and the establishment of a liquidity exchange bank:

Sponsor support
We do not believe that a sponsor support would be a variant that would mitigate the market stress experienced during March 2020. While sponsor support options may create loss absorption capacity during an episode of market stress, the option itself does not address the management of liquidity pressures and would not have prevented the investor redemptions experienced in the initial phase of the pandemic.

Sponsor support has the potential to transmit risk from the MMF sector to other parts of the financial markets and to other market participants. This risk transmission could result in greater system-wide risk and a higher potential for financial stability risk.

We also note that this option could be very costly for the MMF sector due to the need for MMFs to compensate the sponsors for the assumption of those risks as well as for bank sponsors that would need to hold capital and liquidity against these off-balance sheet exposures. The amount of sponsor support needed to meet a stress situation that is uncertain as to timing, duration and severity, and the calculation of the cost of sponsor support, would be complex and likely imprecise. Sponsors would need to implement structural and operational measures to ensure that they have a level of reserves adequate to provide sufficient support during a period of stress that can arise suddenly and that can be difficult to predict as to its level of severity and duration. Sponsor support may not guarantee the level of risk coverage needed to address a disruption of the magnitude of March 2020.

More fundamentally, sponsor support could give the inappropriate impression that MMFs are guaranteed.

We note that implicit support, or so-called "step-in risk", is addressed under the Basel framework and extends to a bank's involvement in asset or funds management and to the sponsorship of MMFs. As noted in our response to Q18, the FSB should carefully consider the interplay between any MMF or STFM reforms and the Basel framework.

Establishment of a liquidity exchange bank (LEB)
We believe that the establishment of a LEB to provide external liquidity support to MMFs in times of crisis would be operationally complex, costly, and impractical. In our view, the costs of establishing and maintaining a LEB would outweigh any potential benefits. As IOSCO noted in Section 4.3.3 of its *Money Market Fund Systemic Risk Analysis and Reform Options*, it is uncertain whether the establishment of liquidity facilities would mitigate the "dash for cash" during a crisis. IOSCO also noted that, for a liquidity facility to be effective, *"its structure and operations would have to be carefully designed to ensure that the facility has sufficient capacity during a crisis and that the facility itself is not vulnerable to runs. A depleted facility could trigger or amplify a run on MMFs."*[8]

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?

A12: Stress testing is a useful technique that can be employed to field test different liquidity risk management tools and business continuity plans designed to respond to stressed market conditions. We encourage authorities to consider a greater focus on MMFs' own stress tests and scenario analyses in lieu of standardized sector-wide exercises, as there is a no one-size

[8] IOSCO 2012. "Money Market Fund Systemic Risk Analysis and Reform Options" (April)

fit all approach for MMFs. Differences among funds and their regulatory requirements, shareholder composition and historical performance and behavior render market-wide, undifferentiated stress tests or scenario analyses of limited utility. These differences could result in aggregated results that are misleading and unreliable. Moreover, the imposition of market-wide 'what if' or 'as if' stress tests that do not reflect differences in fund structures and clients.

The scope and calibration of any stress test or scenario analysis should reflect the fund's unique composition and risk profile as well as historical shareholder behavior. It should also recognize the availability and range of liquidity risk management tools that are available to address redemption requests under stressed market conditions.

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

A13: We believe that the removal of ties between regulatory thresholds and imposition of redemption fees is the most effective representative option to mitigate the liquidity issues observed during March 2020. We also favor granting greater discretion to fund boards or governing bodies to adopt targeted measures that respond to specific sources of liquidity stress and support the consideration of a countercyclical liquidity buffer to reduce threshold effects.

Lowering liquidity requirements during a time of stress would send a signal to the market that liquidity buffers are intended to be used. As a result, investors are likely to be less concerned about the potential imposition of redemption fees. This option could be considered in conjunction with decoupling the link between liquidity requirements, including daily and weekly liquidity asset requirements, and redemption fees and in conjunction with providing fund boards or governing bodies with greater discretion to determine the appropriate response to market disruptions. In order to provide investors with greater certainty about the circumstances that would lead to the imposition of redemption fees, fund boards should be strongly encouraged to disclose their policies with respect to the liquidity levels at which fees could be imposed, taking into consideration fund's unique composition and risk profile. Fund boards should be encouraged to consider and reflect in their policies multiple measures of fund liquidity.

Please refer to our answers to Q9 and Q11.

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?

A14: Please refer to our answer to Q13.

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?

A15: We encourage the FSB and other standard setters, regulators, and supervisors to coordinate their review of potential reforms with the central banks that supported the money markets in some jurisdictions during the March 2020 period of stress. Coordination with these central banks could help to devise holistic solutions that address the root causes of the March 2020 market dislocations and improve STFM functioning while minimizing the risk of moral hazard.

We understand that various national and regional authorities are issuing different surveys to market participants in an effort to better design regulatory or supervisory reforms for the MMF sector. While we appreciate the need for additional information in order to construct an appropriate official sector response, these requests for information or data should be coordinated through a central global standard setter or authority. This coordination could also facilitate a better exchange of information among regulators and supervisors which, in turn, could lead to collaborative solutions.

We appreciate the attention that is being given at the global, regional, and jurisdictional levels to these important issues of market and product structure. While the IIF has long expressed concerns about the potential for various policy initiatives to lead to regulatory fragmentation, conflicting or duplicative regulation or supervision, or potential barriers to market access or to a level playing field, we do recognize that MMF market and product structure differences may make it difficult to fully implement harmonized global standards for MMFs. It may, however, be possible to achieve some level of harmonization in respect of reforms that address issues that are similar across jurisdictions (e.g., the decoupling of regulatory thresholds and redemption fees) and in adopting some common terminology with the goal of facilitating a common language among regulators and market participants.

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

A16: Although the Consultation Report does examine some aspects of STFMs, the focal point is mainly on the interconnections with the MMFs. Instead of a narrow focus on MMFs, we encourage the FSB to research the impact of market structure and market transparency on the resilience of STFMs. The Consultation Report focuses on the impact of MMFs on the STFMs and markets more broadly during the 2020 market disruptions. We also encourage the FSB to consider the volatility in the STFMs that impacted MMFs during this episode of market stress.

We also encourage the FSB to carefully consider the impact of its proposed policy measures on MMFs, the underlying STFMs and on market participants. Policy measures that would have the effect of shrinking MMF markets could have a negative impact on the resilience of STFMs and certainly would not benefit many investors who rely on MMFs as an important part of their investment portfolios.

In addition, we encourage the FSB to consider measures that could increase the transparency and functioning of the STFMs. In particular, we note the largely bilateral and relatively opaque nature of the CP market, which can impede price discovery and effective intermediation. Other markets may have operational complexities which make price discovery and intermediation less efficient than could be the case if those markets could be streamlined through additional reforms.

We note that, prior to the reforms arising from the GFC, swaps were a bilateral market. GFC reforms transformed this market by implementing all-to-all clearing and greater standardization of contracts, which resulted in a noticeable improvement in the transparency and functioning of the swaps market and in swaps market liquidity.

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?

A17: We are of the view that, while the MMF investor redemptions and liquidity pressures experienced during March 2020 are important vulnerabilities, the FSB should take a holistic approach that encompasses the MMF sector, the underlying STFMs and the full range of participants in those markets.

Moreover, in our view, during the March 2020 market disruption, the key issue was not the low volume of MMF transactions but the fact that, under stress, some of the underlying STFMs became one-way markets and market liquidity was severely constrained.

We encourage the FSB to consider the impact of market structure on the resilience of the STFMs and to propose a comprehensive set of reforms that would improve market functioning and transparency and increase market resilience to a range of possible future disruptions arising from different sources or catalysts. We appreciate the FSB's acknowledgement that MMF reforms by themselves will not likely solve the structural fragilities in STFMs, including specifically, the CP and CD markets.

The FSB's review should take into consideration the differences in markets, product structure and regulatory requirements across jurisdictions, as well as other market specificities. We encourage the FSB to recognize the cross-border impacts of MMFs and STFMs; for example, the large U.S. public debt market significantly impacts markets in the EU.

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

A18: Prior to the adoption or recommendation of any MMF or STFM reforms, the FSB needs to consider carefully and report on the interplay of the Basel framework and Basel III reforms and any MMF or STFM recommendations under serious consideration by the FSB. We encourage the FSB to make such a report available in draft form for stakeholder input and public consultation prior to final publication. We note that the G30 has called for a review by banking regulators of how market intermediation is treated in existing regulation, with a view to identifying provisions that could be modified to avoid disincentivizing market intermediation without weakening the overall resilience of the banking system.[9]

[9] See footnote 6.