POLICY PROPOSALS TO ENHANCE MONEY MARKET FUND RESILIENCE - FINANCIAL STABILITY BOARD 30 JUNE 2021

COMMENTS TO FINANCIAL STABILITY BOARD fsb@fsb.org with TITLE "MMF policy proposals"
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FROM: Old Mutual
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#	QUESTION	RESPONSE
Overall		
1	What are the key vulnerabilities that MMF reforms should address? What characteristics and functions of the MMFs in your jurisdiction should be the focal point for reforms?	Key vulnerabilities • Sudden and disruptive redemptions from MMF's due to stress events • Liquidity constraints impacting on a MMF's ability to sell underlying assets • Misalignment between redemption terms and underlying asset liquidity • First mover incentive may impact on remaining investors • Challenges to value volatile/illiquid assets • Potential negative yields and the impact thereof on Living Annuitants • Capital protection perceptions created by fixed pricing (R1) as opposed to variable NAV pricing • Challenges to side-pocket MMF's in the current SA platform environment e.g. Landbank Focal Point of reforms: • A move to a variable NAV would go a long way in improving the resilience of MMF's in South Africa. Consideration should be given as to whether all MMF's should be converted to VNAV as they may well be a level of arbitrage should there be a move for some and not others. This measure on its own would significantly enhance resilience but there are other policy options that may further enhance the ability of a VNAV fund to more effectively deal with liquidity squeezes during market stress periods. These measures should not all be implemented in normal market conditions but we feel it should be interrogated further by the industry and regulator to form a view on an optimal MMF structure • T + 1 settlement for investment and disinvestments
2	What policy options would be most effective in enhancing the resilience of MMFs, both within individual jurisdictions and globally, and in minimising	One or more of the following policies: • Move to variable NAV • The reduction of liquidity transformation (better align asset liquidity with fund liquidity) • T+1 redemption timeline will help with the selling of assets to make cash available • Swing pricing / anti-dilution levies • Minimum balance at risk • Introduction of investor concentration limits

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	the need for extraordinary official sector interventions in the future?	• Capital buffers • Allow reverse repos of government bonds and to exclude these securities from the duration and ADM calculation. This will help with lifting the return without adding additional risk. • Make the side-pocketing process easier. • Have a reserve fund in place.
3	How can the use of MMFs by investors for cash management purposes be reconciled with liquidity strains in underlying markets during times of stress?	Policies to reconcile: • T+1 redemption timeline will help with the selling of assets to make cash available. • Consider imposing more stringent redemption management measures in MMF's during stress periods • MDD's to disclose market events may result in liquidity shortages which will require the manager to impose stringent limitation in respect of redemptions. • The Regulator should impose a higher minimum cash requirement within each MMF i.e. requiring all MMF CIS funds to have a minimum of 10% on overnight call with the banking sector. • Review and revise allowable instrument types and maturities with enhanced liquidity profiles.
Form, functions and roles of MMFs		
4	Does the report accurately describe the ways in which MMFs are structured, their functions for investors and borrowers, and their role in short-term funding markets across jurisdictions? Are there other aspects that the report has not considered?	Accuracy of Report: • No, the report does not accurately describe this. Other Aspects: • Requiring the asset manager to hold a portion in readably available funds.
5	Does the report accurately describe potential MMF substitutes from the perspective of both investors and borrowers? To what extent do these substitutes differ for public	Accuracy of Report: • The report does highlight the potential alternatives and highlights their risks Current alternatives to consider: • Interest-bearing short term funds Enhancements to the way MMFs could be subdivided/classified: • Distinction between retail and institutional MMF's in order to offer different liquidity terms based on investor types

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	debt and non-public debt MMFs? Are there other issues to consider?	• Potentially distinguish funds based on differentiated exposure to MM short term debt instruments (for example public vs non-public short term debt instruments), as they may react differently to various market events.
Vulnerabilities in MMFs		
6	Does the report appropriately describe the most important MMF vulnerabilities, based on experiences in 2008 and 2020? Are there other vulnerabilities to note in your jurisdiction?	Appropriateness of described vulnerabilities: • Yes the report does capture the main vulnerabilities i.e. susceptibility to sudden and disruptive redemptions, and that they may face challenges in selling assets particularly in stress conditions. • These vulnerabilities may be exacerbated by local or international events, such as pandemics, riots, coup d'etat, acts of God, issuer defaults and downgrades which all impact the liquidity of instruments held by MMF's and investor behaviour. Jurisdiction specific vulnerabilities • Same day settlement and linked with a constant price. This must change to T+1 settlement and a variable NAV. • No minimum liquidity requirements.
Policy proposals to enhance MMF resilience		
7	Does the report appropriately categorise the main mechanisms to enhance MMF resilience? Are there other possible mechanisms to consider? Should these mechanisms apply to all types of MMFs?	Alternate mechanisms not in report: • T+1 settlement for investments and disinvestments • Diversify MMF assets across local and global jurisdictions, as events impacting on local liquidity may not impact global liquidity and vice versa. This suggestion may possibly be more suitable in a short term interest bearing structure but it may be worthwhile to look into from a MMF perspective. Considerations for proposed mechanisms: • Swing pricing would not be compatible with stable NAV funds, because it causes fluctuations in a fund's NAV and implementation thereof would require the conversion of our funds to variable NAV funds. The application of swing pricing in stress periods on an industry level would definitely pose challenges that will need to be resolved e.g. administration of more than 1 price at a specific point in time and how that may impact on performance reporting. The same result can however be achieved by anti-dilution levies that's imposed on redeeming investors, which does not change the NAV of the fund.

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		Application to all MMFs • Rules must be applied consistently across all MMFs
8	Does the assessment framework cover all relevant aspects of the impact of MMF policy reforms on fund investors, managers/sponsors, and underlying markets? Are there other aspects to consider?	Assessment framework • The assessment framework seems to cover all market participants quite comprehensively.
9	Are the representative policy options appropriate and sufficient to address MMF vulnerabilities? Which of these options (if any) have broad applicability across jurisdictions? Which of these options are most appropriate for public debt and 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)?	Most appropriate mechanisms: • The removal of stable NAV & introduction of a VNAV, as well as one or more of; • Swing pricing / anti-dilution levies • Minimum balance at risk • Introduction of investor concentration limits These could all have broad applicability both locally and in other jurisdictions and would on balance, enhance financial stability. The industry and the Regulator should consider the impact that these additional measures would have on the characteristics of MMF's and the impact that imposition thereof would have on investor behaviour. Imposition of these policy options should be an industry initiative as opposed to implementation on an adhoc basis. Application of these measures would require significant system developments in the industry. • Capital buffers would require a change in legislation and would make MMF's more expensive and reduce yields. As a result, these options or a combination thereof may enhance the demand for non-money market Fund options such as interest bearing short term funds, bank deposits and public debt MMF's. • The reduction of liquidity transformation by reviewing and revising allowable instrument types and maturities with enhanced liquidity profiles would better align MMF redemption terms with the liquidity of the underlying assets they hold and limit first mover advantage of large redemptions in a stress event.

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		This option would reduce yields and may result in a modest shift in other investment alternatives but would assist in preserving financial stability across the financial system. • The setting of differing liquidity buffers based on the investor types on a specific fund would also enhance financial stability (MMF's sell to institutional investors might be subject to higher liquidity requirements and may have a higher investor concentration) or based on fund specific stress tests. • Reducing threshold effects; removing ties between regulatory thresholds and imposition of fees and gates; counter cyclical liquidity buffers does not seem to have the desired impact from a market stability perspective.
10	Does the summary assessment of each representative option adequately highlight the main resilience benefits, impact on MMFs and the overall financial system, and operational considerations? Are there any other (e.g. jurisdiction-specific) factors that could determine the effectiveness of these options?	Summary assessment: • The summary assessment of each representative option was quite comprehensive.
11	Is the description of variants and the comparison of their main similarities/differences vis-à-vis the representative options appropriate? Are there other variants to consider?	Description of variants: • The descriptions and comparisons of the variants seemed reasonable. Additional variants • T+1 settlement for investments and disinvestments

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12	Are measures to enhance risk identification and monitoring by authorities and market participants appropriate complements to MMF policies? Which of these measures are likely to be most effective and why? Are there other measures to consider?	Measures most effective • Stress testing and transparency requirements on the type of assets being included would make it easier for Fund Managers to manage their risks and for Authorities to monitor which would enhance risk management and remedial action on both a fund and industry level. • These measures in conjunction with enhanced MMF reporting from a frequency and metrics perspective would better position the Authority to assess market dynamics and to obtain a broader perspective on STFM's and interconnectedness with MMF's. • A more consistent approach should be taken across the different trustees
Considerations in selecting policies		
13	Are the key considerations in the selection of policies to enhance MMF resilience appropriate? Are there other considerations that should be mentioned?	Order of considerations: • Prioritisation of representative options (or their variants) given identified vulnerabilities, existing domestic MMF and STFM structures and regulatory frameworks • How to combine policy options into reform packages that enhance resilience by addressing all identified MMF vulnerabilities. This approach is appropriate as it provides for the necessary flexibility across jurisdictions.
14	Which options complement each other well and could potentially be combined? What are the most appropriate combinations to address MMF vulnerabilities in your jurisdiction? Which combinations are most effective for different MMF types and their functions?	Primary option to be implemented: • VNAV pricing One or more options to be implemented in addition during stress periods: • The reduction of liquidity transformation • Swing pricing / anti-dilution levies • Minimum balance at risk • Introduction of investor concentration limits • Capital buffers

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		Additional combination to consider: • A combination between the Capital Fund and Sponsor to create and maintain a buffer and hereby lessen the cost structure of the underlying Fund.
15	To what extent should authorities seek to align MMF reforms across jurisdictions? Is there a minimum set of policies or level of MMF resilience that should be considered at the international level to avoid fragmentation and regulatory arbitrage?	Extent of reforms across jurisdictions: • It would make sense if MM reforms are aligned across jurisdictions. • From a South African CIS perspective we believe it is important to introduce effective measures that would enhance the resilience of our local MMF's taking account of our own unique environment. • The resilience (or lack of) of international MMF's would impact us locally in so far as we are investors in those MMF's and may in some instances result in arbitrage or increased allocation to MMF's in less regulated environments.
Short-term funding markets (STFMs)		
16	Does the report accurately describe problems in the structure and functioning of STFMs and how these have interacted with MMFs in stress periods?	Accuracy of report: • Yes the report accurately describes the problems experienced during preceding stress periods
17	What other measures should be considered to enhance the overall resilience of STFMs? How would those measures interact with MMF policy reforms and how effective are they likely to be in	No response

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	preserving market functioning in stress times?	
Additional considerations		
18	Are there any other issues that should be considered to enhance MMF resilience?	Other considerations: • Regulatory processes to implement any of these policy reforms to enhance the resilience of MMF's should ideally be imposed on an industry level without giving investors the option to vote against the implementation of policy reform proposals • This approach is based in a belief that policy reforms targets the best interest of all MMF investors • Shift to NAV is of the outmost importance