

Amundi response to EC targeted consultation on the functioning of MMFR

Executive Summary

Amundi is the European largest asset manager by assets under management and ranks in the top 10 globally. It manages 2,021 billion euros of assets, as of end of March 2022, across six main investment hubs in Boston, Dublin, London, Milan, Paris and Tokyo. Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, Amundi was listed in November 2015.

Amundi is also a leading and longstanding actor in managing liquidity funds, with 174 billion euros of assets as of end of March 2022, out of which 137 billion euros of money market funds (MMFs) domiciled in the European Union, thus following the European Money Market Fund Regulation (MMFR).

Amundi is notably the world largest manager of euro-denominated MMFs, with nearly 132 billion euros of assets as of end of March 2022. Most MMFs under its management belong to the VNAV (Variable Net Asset Value) type category and are domiciled in France. It also operates in the LVNAV (Low Volatility NAV) MMF market by offering two Luxembourg-domiciled funds, AAA-rated and denominated in euro and USD respectively.

Amundi welcomes the opportunity to participate to the targeted Consultation on the functioning of MMFR launched by the European Commission.

As mentioned in the responses we provided to both ESMA and FSB last-year consultations, we strongly believe that MMFR has played a key role in the way EU-domiciled MMFs were able to cope with the wave of outflows which occurred in March 2020.

We would like also to underline the following:

- MMFs revealed, rather than triggered, the liquidity crisis that money markets underwent during the critical month of March 2020,
- This liquidity crisis stemmed from the unprecedented dash-for-cash effects of the sudden wave of lockdowns simultaneously decided by most governments of developed countries.
- MMFR allowed for EU-domiciled MMFs to enter this crisis in a sound situation, thus avoiding any disruption in the long-dated service they had provided to their holders.
- Though the intervention of ECB undoubtedly helped money markets to recover, notably by re-opening a funding window for non-bank issuers of commercial paper (CP), it has yet to be relativized.
- Indeed, the major part of MMFs' investment universe, i.e. CPs issued by banks, was not targeted by ECB intervention. Moreover, this intervention took time to be effectively implemented, and became fully operational once the wave of outflows from MMFs had practically ceased.
- MMFR results from a complex and challenging process that took several years to deliver. This regulation is an emblematic example of a well-balanced text that has factored in the reality of the European landscape of MMFs, while addressing the key issues and vulnerabilities that had arisen during the great financial crisis (GFC) in 2007-2008.

Against this background, our view is that MMFR does not require any level 1 amendment. Indeed, any change in the subtle equilibrium found in 2017 could endanger the two decisive roles that MMFs play by i/ providing a stable, transparent, market-driven source of funding to the real economy in Europe, especially when it comes to the Euro-denominated MMFs, and ii/ offering a competitive, liquid, well-regulated tool to investors when managing their excess cash. Without MMFs, such functions would not only get more expensive, but also be operated in a less-regulated environment.

Among the different reform options we consider as possibly useful for MMFs, we have identified the resort to liquidity management tools, namely adjustable exit fees, in case of exceptional market environment. Such reform could be easily adopted without entering into a level 1 change in MMFR as a broader review of both AIFMD and UCITS is under way and should lead to a comprehensive regulation covering the use of LMTs (liquidity management tools). A specific treatment of MMFs could then prevent a risky re-opening of MMFR.

Some other adjustments of MMFR could be achieved through level 2 or 3 measures. These adjustments address the treatment of liquidity ratios, renamed as “daily liquid assets” or DLA and “weekly liquid assets”, or WLA, in the literature post Covid 19 crisis of March 2020.

Firstly, as these ratios embed a critical function, for the MMF itself, but more importantly, for the financial stability, we suggest that regulators define a clear procedure in case of passive breach lasting more than 48 hours (for example). This procedure could mandate the MMF manager to liaise with its NCA in order to build an action plan meant to correct the breach. Such option would avoid any undesired cliff effect and reduce significantly the risk to create a first move advantage situation. In other words, the “consumption” of WLA or DLA would be possible under the NCA’s scrutiny.

Secondly, our view is that the levels of DLA and WLA are correctly defined in MMFR. However, the experience of March 2020 crisis taught us (or confirmed), that the liquidity needs of a given MMF are directly linked to its investor basis. Hence, corporate investors are, by definition, more prompt to exit MMFs, given the higher volatility profile of their cash needs across time. It then would be useful to require asset managers to draft specific internal procedures meant to adapt MMFs liquidity structure according to their holders’ structure. Such additional provision could take the shape of a level 2 or 3 clarification of Article 27 of MMFR, which covers the “know you customer policy”.

Thirdly, we are strongly opposed to the idea of creating a “public debt quota” rule, as proposed notably by both ECB and ESRB, where MMFs would have to dedicate a specific part of their portfolios to public debt holdings. We see only drawbacks in such proposal, notably the importation of an undesired additional volatility, the high segmentation of EU public debt markets, or the risk of squeeze during month-end or quarter-end periods. Reversely, we welcome the wise approach of ESMA, requiring that public debt instruments could be held on an optional basis while being granted the possibility to be part of MMFs’ WLA.

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