EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL MARKETS UNION

Financial markets
Asset management

CONSULTATION DOCUMENT

TARGETED CONSULTATION ON THE FUNCTIONING OF THE MONEY MARKET FUND REGULATION

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

You are invited to reply **by 13 May 2022** at the latest to the **online questionnaire** available on the following webpage:
https://ec.europa.eu/info/publications/finance-consultations-2022-money-market-funds_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published in accordance with the privacy options respondents will have opted for in the online questionnaire.

Responses authorised for publication will be published on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2022-money-market-funds_en

Any question on this consultation or issue encountered with the online questionnaire can be raised via email at fisma-money-market-funds@ec.europa.eu.

INTRODUCTION

The money market funds Regulation, fully applicable since January 2019, aims at preserving the integrity and stability of the internal market, by addressing credit and liquidity risks challenges experienced by MMFs during the 2008 crisis, increasing the protection of MMFs investors and enhancing the supervision of MMFs.

The MMF Regulation (EU Regulation 2017/1131) requires the Commission to submit a report to the co-legislators assessing the adequacy of this Regulation from a prudential and economic point of view by summer 2022. This should be based on a robust and comprehensive evaluation of current rules. The following questionnaire aims at complementing the information collected by other initiatives and work (ESMA, ESRB/ECB, FSB) on the functioning of the existing rules on money market funds.

ABBREVIATIONS

MMF	Money Market Fund
MMFR	Money Market Fund Regulation 2017/1131
NAV	Net Asset Value
MTM	Mark-to-Market
Shadow NAV	NAV per unit or share in accordance with Article 30 of MMFR
Public Debt CNAV	Public Debt Constant Net Asset Value MMF, defined in Article 2(11) of MMFR
LVNAV	Low Volatility Net Asset Value MMF defined in Article 2(12) of MMFR
VNAV	Variable Net Asset Value MMF defined in Article 2(13) of MMFR
Short-term VNAV	VNAV managed as Short Term MMF as per Article 2(14) of MMFR
Standard VNAV	VNAV managed as Short Term MMF as per Article 2(15) of MMFR
DLA	Daily Liquidity Assets ratios
WLA	Weekly Liquidity Assets ratios
WAM	‘weighted average maturity’ as per Article 2(19) of MMFR
WAL	‘weighted average life’ as per Article 2(20) of MMFR
LMTs	Liquidity management tools
EU	European Union
BoE	Bank of England
ECB	European Central bank
FED	Federal Reserve

Consultation questions

1. Questions addressed to all

1. In your view, what is the impact of the MMFR on the MMF industry in the EU? Please provide quantitative information to the extent possible. Please provide an assessment on a scale 1 to 5 (1=less successful)

	1 (least effective)	2 (rather not effective)	3 (neutral)	4 (rather effective)	5 (most effective)	Don't know – No opinion – not applicable
Ensuring the liquidity of the fund is adequate to face redemption requests					5	
Preventing risk of contagion				4		
Enhancing the financial stability of the internal market			3			
Increasing MMF investor protection					5	
Reducing first mover advantage incentives in times of stress		2				
Transparency					5	
Supervision			3			
Other aspects						X

Please specify to what other aspects you refer in your answer to question 1 a):

	Scale 1 to 5	Please comment
Effectiveness • Has the Regulation been overall effective in delivering on its objectives (ensuring the liquidity of the fund is adequate to face redemption requests, preventing risk of contagion, enhancing the financial stability of the internal market, increasing MMF investor protection, reducing first mover advantage incentives in times of stress, risk management rules, transparency, supervision, etc.)? • What factors have reduced the effectiveness / rendered the framework less effective than anticipated? Which rules have proven less effective than anticipated?	5	• MMFR has proven effective in delivering its objectives as shown during market events in March 2020 at the outset of the Covid-19 lockdowns in Europe. MMFs were regarded as safe havens by investors during the crisis. Especially, LVNAV EUR and GBP MMFs were very high in demand as investors faced market turmoil during March and April 2020 and needed to navigate limited visibility and high uncertainty in terms of liquidity needs in this kind of environment. • MMFR seems well understood and recognized by global investors. • The transparency and frequency of reporting of key fund data are regarded as role model for other asset classes. • Overall, portfolio diversification, transparency and consistency introduced by MMFR also contributed to resilience. This ability to withstand stress protected investors and mitigated contagion risk, thereby enhancing overall financial stability. • Provisions which did not operate as intended were specifically the link between liquidity thresholds and the role of redemption fees and gates. This introduced an element of procyclicality and unwarranted noise in the sentiment. • The increased level of reporting and transparency requirements as well as the required additional research and risk resources have increased the cost base for MMFs and contributed to a consolidation of MMF strategies within the industry. Consequently, investors and capital are more concentrated in fewer portfolios.

Efficiency • Has the framework been cost efficient? • Is there any undue burden created by the MMFR? What scope is there to realise cost efficiencies via further simplification? • Should enforcement of the rules and supervision be strengthened?	2	• The introduction of MMFR has incurred implementation costs on all involved parties, such as asset managers, platforms, distributors, and investors. • However, these costs were largely mitigated by money market fund consolidation with better economies of scale, as described in the prior section. • But further changes may again result in additional costs to the end users. • As MMFR has proven to be very positive in enhancing fund resilience and acceptance by investors we would see no need for further simplification. • Given that MMFs continued to operate as intended despite the widespread market stress caused by the March 2020 crisis, we see no case for strengthening supervision.

Relevance • Is the framework overall relevant? (in terms of evolving objectives and needs, has the market significantly evolved compared to when the MMFR was designed?) • How relevant is it, or what needs to change, in light of market developments?	5	• The MMF framework is highly relevant given the continued growth of MMFs. • This is particularly true for LVNAV offerings that are usefull and provide great value to investors. • Proposals for higher liquidity levels or recommendations of minimum public debt quotas should consider the reduced bank appetite for either secured or unsecured cash around reporting dates. • The introduction of Basel III and EMIR have made liquidity and HQLA more important and created additional challenges for MMFs around reporting dates when short term funding markets function less well as a result of such regulation. • Policymakers should seek to improve the functioning of the short-term funding markets in the EU. • Changes in the interest rate environment and liquidity conditions have intensified substantially over the recent years and demand a great level of flexibility for money market fund managers to stay strongly aligned with the objectives of the MMFR. • While 3M Euribor rate moderately fluctuated within the range of -0.15% to -0.60%; 3M USD Libor was significantly influenced by central bank activity moving from 2.8% to 0.1% and back up to 1.4%. In a similar but more muted fashion 3M GBP Libor declined from 0.9% to 0.0% before rising back up to almost 1.3%. • Tighter restrictions on instruments such as min. quotas for public debt limit the flexibility for managers to navigate these changes.
Coherence • Is the legislative framework coherent with other related frameworks, at EU level? • Are existing EU provisions coherent with each other?	2 2	• The introduction of Basel III and EMIR have made liquidity and HQLA more important and created additional challenges for MMFs around reporting dates when activities in short-term funding markets are subdued as a result of such regulation. • This should be taken into recognition and improvements on short-term markets seem to be warranted. An isolated change of MMF regulation will not help in finding a solution to this issue.

EU value-added • Has intervention at EU level been justified, and does it continue to be justified? • What has been the value-added compared to national frameworks?	4	• A base level of consistency across national EU member jurisdictions has been achieved by MMFR and this was justified. • A "money market fund" label can be regarded as a great success of EU intervention. • While there is still some divergence between EU member states based on investor preference for a certain type of MMF, a minimum standard has been set and investors may make informed investment choices across a range of products that suit their needs and risk appetite.

Please explain further if necessary
(max 1.500 characters)

2. a) To what extent has MMFR made MMFs more resilient during March 2020 and compared to 2007 (i.e. considering equivalents to MMFs at that time) and through which channels (MMFR rules on credit risk, on MMFs asset composition, definition of liquidity, etc.)?

5 - Most successful

Please, explain, in case you have the experience/information to make such a comparison.
(max 1.500 characters)

- No regulation could have anticipated the global economic shutdown which resulted from measures to contain the COVID crisis.
- Comparisons between the crises are not appropriate as the 2007-08 global financial crisis was an endogenous event, driven by credit and related solvency concerns over certain large financial institutions to which MMFs, amongst others, had significant exposure. The 2020-COVID-crisis was an exogenous event, not caused by inappropriate risk taking by either MMFs or any other sector.
- MMFR was successful in making funds more resilient, as shown by the fact that there were no fund-imposed fees, gates or suspensions. MMFs continued to serve their purpose and met their regulatory requirements exactly as intended.
- MMFR liquidity requirements ensured that MMFs held cash buffers which were more than adequate to meet elevated outflows.
- In general, the commercial paper market faced disrupted secondary markets and received little or no benefit from various asset purchase programmes. However, despite the challenges, all funds stayed within their MMFR basis pricing parameters.

Question 2. b) Through which channels has MMFR made MMFs more resilient during March 2020 and compared to 2007?

	1 (least effective)	2 (rather not effective)	3 (neutral)	4 (rather effective)	5 (most effective)	Don't know – No opinion – not applicable
MMFR rules on credit risk				4		
MMFs asset composition				4		
Definition of liquidity			3			
Other - *gate/fee provisions*	1					

Please specify to what other channel(s) you refer in your answer to question 2 b):

- The gate/fee provisions create procyclical pressures. The challenge is not a lack of liquidity but the fact that the liquidity may be judged effectively unusable by the construction of MMFR.

Please explain your answers to question 2 b), in case you have the experience /information to make such a comparison:

- As liquidity conditions can vary significantly at different times (such as reporting dates), managers should have sufficient tools and flexibility to manage liquidity in those changing conditions.
- We question the rationale for differences in the definition of liquidity between MM fund types and for a 17.5% cap for government securities as those securities are the most liquid under stress and this cap places an arbitrary limit on their ability to contribute to liquidity. In our view, this may be contradictory to the targeted objectives as e.g., a minimum quota for public debt is limiting the flexibility for the manager to navigate a change in market conditions.

3. If LVNAV were not available anymore, what impacts would you expect on you, and other relevant stakeholders? Please explain.
(max 1.500 characters)

- If the LVNAV in its current form were no longer available, we expect that many investors would leave the MMF sector altogether and potentially move into unregulated markets.
- There will be accounting obstacles and increased costs associated with any transition from LVNAV to VNAV and PDCNAVs do not currently offer a scalable alternative except in USD.
- Furthermore, this could have a significant impact on issuer funding and Euribor levels.
- The accounting treatment of LVNAV as cash or cash equivalent is vital and a cornerstone of the value proposition to the investors. Loss of the ability to transact at a largely predictable price would create deep uncertainty around this. In some jurisdictions, such as France and

the US, cash equivalence has been granted to variable or floating NAV MMFs, but there is no single authority in Europe to provide clarity more broadly. Moving the LVNAV to a floating NAV could therefore be deeply disruptive for investors and in any way result in a faster pace of consolidation and thereby increased investor concentration with fewer providers.

- Direct investing is limited to only those investors with the scale, credit resources, and settlement capabilities to manage a portfolio. Such investors are unlikely to match the diversification or market execution of an MMF. Crucially, capacity constraints on bank deposits may mean investors are forced into less transparent, less regulated alternatives.

4. If Public Debt CNAV MMFs were not available anymore, what impacts would you expect on you, and other relevant stakeholders? Please explain:
(max 1.500 characters)

- We currently do not offer any significant amount of PDCNAV funds due to lack of supply and low returns
- However, we suspect that the removal of PDCNAVs would leave investors with the same alternatives as above. These are subject to significant capacity constraints (e.g. deposits), additional risks (longer-term investments) and/or resource allocation (direct investment) or less transparency and regulation (other alternatives)

5. What elements of the MMFR could in your view be improved and to what degree this is important (on a scale 1 to 5; 1 lower importance):

	To what degr	Please comment
Know your customer policy	2	• KYC is already an important part of the fund manager's role and provides an invaluable tool in predicting investor behavior and likely redemption patterns. • Predicting likely redemption behaviour on the basis of generic categorizations can be misleading as this can vary by sector. Managers of MMFs are best positioned to understand and anticipate the specificities of their investors and to keep an ongoing flow of communication with them. • This remains an ongoing priority.
Disclosure / transparency	2	• MMFs are already showing a very advanced level of transparency towards investors, distributors and regulators. • Especially, the bi-weekly transparency reporting for MMFs, which offers portfolio-specific information and key statistics to our investors is highly regarded by them.

Role of credit rating	1	• Fund ratings are a prerequisite for most of our investor base and are widely used and embedded in the investment guidelines of many institutional investors. • Fund ratings also bring the added benefit of additional transparency on data and they provide an additional layer of oversight by skilled professionals which is aligned with and enhances and supports the MMF regulation.
Limitations on the use of amortised cost method	1	• Amortised cost is considered to be an appropriate valuation for short-term high-quality securities generally held to maturity. • LVNAV funds apply amortising cost only to assets 75 days or less and where the value is within 10 bps of the market to market. The entire portfolio is marked to market daily to calculate deviation and the comparison provides a useful check that fair value is being represented. • Hence, a sound daily valuation process which is based on market value seems warranted in the current framework. • This mechanism is a means of reducing volatility, allowing investors more predictability and smoothing out accounting gains or losses. • The ability to transact at a predictable price is a vital component of the LVNAV structure and therefore a shift to variable NAV would be deeply disruptive for investors, likely to may cause a shift out of MMFs which in turn could impact funding to issuers.

Regulatory triggers for LMTs	5	• Given that the linkage between the possible use of LMT and minimum liquidity thresholds inadvertently resulted in procyclicality, this linkage should be removed in a targeted reform. • We welcome recommendations which allow flexibility of choice between different types of LMT. • The choice, timing, and calibration of LMTs should rest with the fund manager and board who are best able to apply them in the best interest of investors and have faster access to relevant information. • Not all available LMTs seem feasible for MMFs which mostly offer T+0 or T+1 settlement. From our assessment it seems very challenging to integrate a swing pricing mechanism into to T+0 and T+1 order settlement process as the time frame for valuation of transactions and the portfolio positions, quality check of valuation errors and execution of client redemptions is already very short. Embedding a swing pricing mechanism into this short-term process and time span may cause unintended instability of the process. • Hence, we would like to stress the point that some LMTs like liquidity fees seem better suited for MMFs than others like swing pricing.
Data sharing	3	• A lot of data is already being shared to investors and NCAs, but the industry could enhance those efforts if required. • However, we are convinced that additional reporting does not directly contribute to fund resilience and, most importantly, does not affect investor incentives to redeem.
Scope	1	• We do not see any need to change the scope of MMFR
Other		

Please explain further
(max 1.500 characters)

6. What regulatory developments at international level should be taken into account in the MMFR and why? Please explain:

- In the US, PDCNAV MMFs are eligible for investment by CCPs as they invest almost exclusively in assets which meet the CCP investment criteria (highly liquid, minimal credit and market risk). This should be included in any update to MMFR in Europe as well.

- Moreover, ongoing work to enhance the functioning of short-term funding markets, should be taken into consideration during any changes to MMFs which are only one player in the short-term financial market. Improvements in the liquidity of underlying markets would probably have the biggest positive benefit to MMF resilience.

7. Would the proposal on Liquidity Management Tools under the AIFMD/UCITS review contribute to strengthen the liquidity risk management in MMFs?

   Partially.

- The AIFMD/UCITS review provides for a harmonised list of LMTs, some of which are not appropriate for MMFs, e.g. redemptions in kind and side pockets. Other options, such as fees, gates, suspensions, may be more appropriate for MMFs.
- The fund manager and board should have discretion over when to deploy LMTs and how to determine the specific calibration, within the overall framework and in the best interests of investors.
- We are supportive of recommendations which allow flexibility of choice between different types of LMT.

8. a) Do you have any comment on the impact of the MMFR on the functioning of short-term markets (via investments in short-term instruments issued by banks, insurances, non-financial corporates, etc.), both in terms of costs/convenience, but also in terms of financial stability/contagion in times of crisis? Please explain further and provide quantitative information if possible.
   (max 1.500 characters)

- MMFs provide a vital source of funding to a wide range of issuers. Through their purchases of ECP and CDs MMFs provide borrowers with a reliable source of cost efficient and flexible short-term issuance in EUR, USD and GBP as well as other smaller currencies. This funding seems not replaceable by other sources.
- MMFs also provide substantial overnight funding to banks through the reverse repo market, allowing banks an important and cost-effective funding tool for their trading books. If a substantial shift out of MMFs were to occur, it is likely that this would have implications for funding to the real economy as an important source of liquidity was withdrawn.
- The functioning of the short-term funding markets remains reliant on the role of banks as intermediators. Hence it became dysfunctional in March 2020.
- Policy makers should consider the underlying market's structural issues and the role of prudential regulation in incentivising broker-dealers to continue to make markets during times of stress.

8. b) In your view, is there sufficient transparency both in terms of issuance, underlying collateral and rates of short-term money market instruments in the EU insofar as covered by the MMFR? Please explain:

No.

- The short-term market is an OTC-dealer-intermediated market. There is no single source of trading information which makes price discovery challenging compared with other markets such as fixed income or equity.
- More transparency on issuers outstanding and levels would be helpful for MMFs. Greater level of transparency would likely improve overall liquidity by aiding price discovery.