

Luxembourg, 13 May 2022

Attachment to the response regarding the EC targeted consultation on the functioning of the Money Market Fund Regulation

Kindly note that due to the multiple-choice approach of the online questionnaire, it was unfortunately not possible to include all aspects of the ALFI response to question 5. Therefore, please find for the sake of complete feedback all responses under question 5 as follows below.

Thank you very much for your consideration.

Question 5. What elements of the MMFR could in your view be improved?

Please select as many answers as you like

- ☐ Know your customer policy
- ☐ Disclosure / transparency
- ☐ Role of credit rating
- ☐ Limitations on the use of amortised cost method
- ☒ Regulatory triggers for LMTs
- ☐ Data sharing
- ☐ Scope
- ☐ Other

To what degree is it important to improve the "know your customer policy"?

- ☐ 1 - Not important
- ☒ 2 - Rather not important
- ☐ 3 - Neutral
- ☐ 4 - Rather important
- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the "know your customer policy":

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The “know your customer provisions” under art. 27 MMFR were of great help to better understand the nature of investors and anticipate their behaviour.

To what degree is it important to improve the disclosure and/or the transparency?

- ☐ 1 - Not important
- ☒ 2 - Rather not important
- ☐ 3 - Neutral
- ☐ 4 - Rather important
- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the disclosure and/or the transparency:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We do not see the need to introduce further disclosures.

Regarding additional disclosures to investors, we would like to mention that there was in general no particular increase in requests by investors observed. Therefore, we do not assume that there is a need for further disclosures from an investor's perspective. Regarding additional disclosures to regulators, we would like to highlight depending on the fulfilment of certain criteria, funds are subject to a semi-annual risk reporting that already provides valuable information to authorities.

To what degree is it important to improve the role of credit rating?

- ☐ 1 - Not important
- ☒ 2 - Rather not important
- ☐ 3 - Neutral
- ☐ 4 - Rather important
- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the role of credit rating:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Ratings are an important tool helping investors as independent checks. However, ratings are not the only basis for investors' interest in MMFs. Furthermore, ALFI is of the opinion that credit ratings were not the driver during this crisis to redeem shares, which was a liquidity crisis (in view of a pandemic) rather than a credit crisis as experienced in 2008. It is also important to understand the particularity of MMFs that preliminary corporate investors are choosing them looking for returns. In this context, the "know your customer provisions" under art. 27 MMFR were of great help to better understand the nature of these investors and anticipate their behaviour. The investor redemptions during the crisis impacted LVNAV funds as well as Euro Standard VNAV funds. Euro Standard VNAV funds are predominately not AAA rated which allows them to take incremental risks in order to offer a higher yield as result which is what their core target investors seek. Whereas, AAA MMF investors seek to preserve capital and access to liquidity with yield being a secondary consideration.

To what degree is it important to improve the limitations on the use of amortised cost method?

- ☒ 1 - Not important
- ☐ 2 - Rather not important
- ☐ 3 - Neutral
- ☐ 4 - Rather important
- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the limitations on the use of amortised cost method:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Especially corporate treasurers as typical investors in stable NAV MMFs value the service of intra-day settlement which is typically only possible with a stable NAV (or very costly and less frequent using multiple NAV calculations a day and complete reorganisation of corporate treasurer processes). LVNAVs need the amortized cost method in order provide for a constant NAV. This relates to their feature to offer several redemption batches intra-day which would be otherwise highly costly and impractical if the NAV was to be fluctuating and therefore be calculated several times a day before payments to investors can be carried out.

Investors in stable NAV MMFs are typically looking for diversification, stability and yield. The use of the amortized cost method enables to recognize that.

The use of amortized cost method serves the predictability of prices which can be, depending on the jurisdiction and accounting method used, a decisive element in order to qualify investments in MMFs as cash or cash-equivalent – a classification which can be important for investors' own accounting treatment and balance sheets' capital management.

In turn, abolishing the amortized cost method would render stable NAV MMFs much less attractive for investors, and not solve the 2020 challenges highlighted.

To what degree is it important to improve the regulatory triggers for LMTs?

- ☐ 1 - Not important
- ☐ 2 - Rather not important
- ☐ 3 - Neutral
- ☐ 4 - Rather important
- ☒ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the regulatory triggers for LMTs:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

ALFI supports ESMA's proposal of removing the automatic link between regulatory thresholds and imposition of LMTs and instead leaving it at the responsibility of the board to impose these measures to the fund when it is in the best interest of the fund, without reference to any specific level of liquidity. In our view, this could lower the risks of investor outflows as especially gates can have a negative connotation for investors. In addition, this would fall in the already existing responsibilities of the board as under the current requirements, it needs already to perform an assessment of the situation and to determine next steps when liquidity falls below the thresholds.

To what degree is it important to improve the data sharing?

- ☐ 1 - Not important
- ☐ 2 - Rather not important
- ☒ 3 - Neutral
- ☐ 4 - Rather important

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- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the data sharing:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

N/A

To what degree is it important to improve the scope?

- ☐ 1 - Not important
- ☐ 2 - Rather not important
- ☒ 3 - Neutral
- ☐ 4 - Rather important
- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of the scope:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

N/A

Please specify to what other element(s) of the MMFR you refer in your answer to question 5:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

N/A

To what degree is it important to improve this/these other element(s) of the MMFR?

- ☐ 1 - Not important
- ☐ 2 - Rather not important
- ☒ 3 - Neutral
- ☐ 4 - Rather important
- ☐ 5 - Very important
- ☐ Don't know / no opinion / not applicable

Please explain your answer about the improvement of this/these other element(s) of the MMFR:

1500 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

N/A