

SUMMARY REPORT

TARGETED CONSULTATION ON THE FUNCTIONING OF THE MONEY MARKET FUND REGULATION

I. INTRODUCTION

The Regulation (EU) 2017/1131 on money market funds (the MMF Regulation) entered into application in January 2019. It aims at preserving the integrity and stability of the internal market, by addressing credit and liquidity challenges experienced by money market funds (MMFs) during the global financial crisis of 2008, increasing the protection of MMFs' investors and enhancing the supervision of MMFs.

Between 12 April 2022 and 20 May 2022, the Commission ran a targeted public consultation seeking views from relevant stakeholders, and in particular from investors and managers of MMFs. In total, 48 responses were received to the online questionnaire. All responses were considered, including accompanying letters sent by 12 stakeholders.

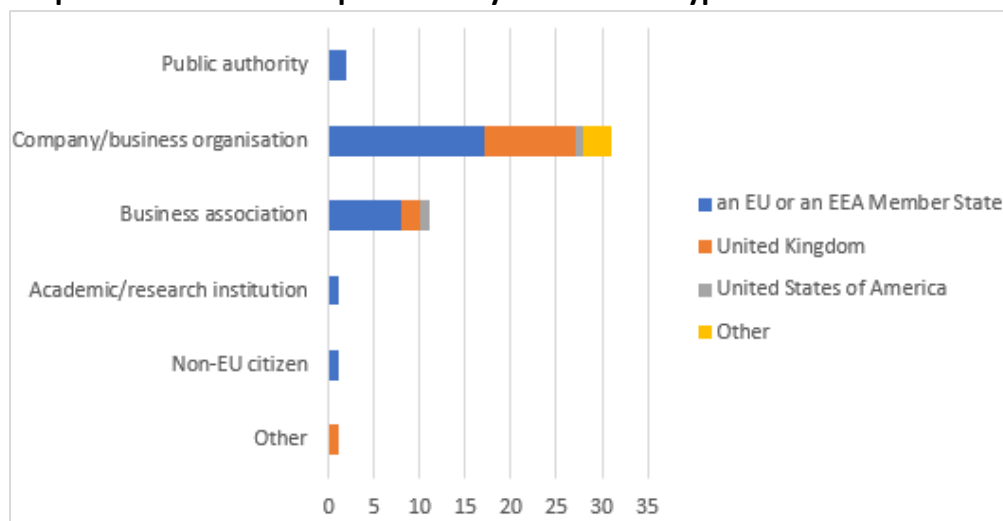
According to Article 46 of the MMFR, the Commission has a legal mandate to review the adequacy of the MMFR from a prudential and economic point of view. The Commission has recently [published a report](#) delivering on that legal mandate. This factual summary serves a different purpose - it is intended to provide a factual summary of a targeted consultation which was one of the sources that informed the preparation of the report required under Article 46 of the MMF Regulation.

II. OVERVIEW OF RESPONDENTS

The majority of respondents to the consultation represented companies/business organisations (65%), followed by business associations (23%), public authorities (6%), academic/research institutions (2%), non-EU citizens (2%) and others (2%). In total, 40% of the respondents were financial entities, or responding on behalf of financial entities.

The majority of respondents (63%) was domiciled in an EU or an EEA member state of which 21 % in France, 13% in Germany, 10% in the Netherlands, 8% in Ireland and 6% in Luxembourg. However, some respondents were key representative associations that covered the EU-sector, regardless of their domicile. A group of 27% was domiciled in the United Kingdom and 4% in the United States of America.

Graph 1: Overview of respondents by stakeholder type and domicile



Number of respondents

III. RESULTS OF THE PUBLIC CONSULTATION

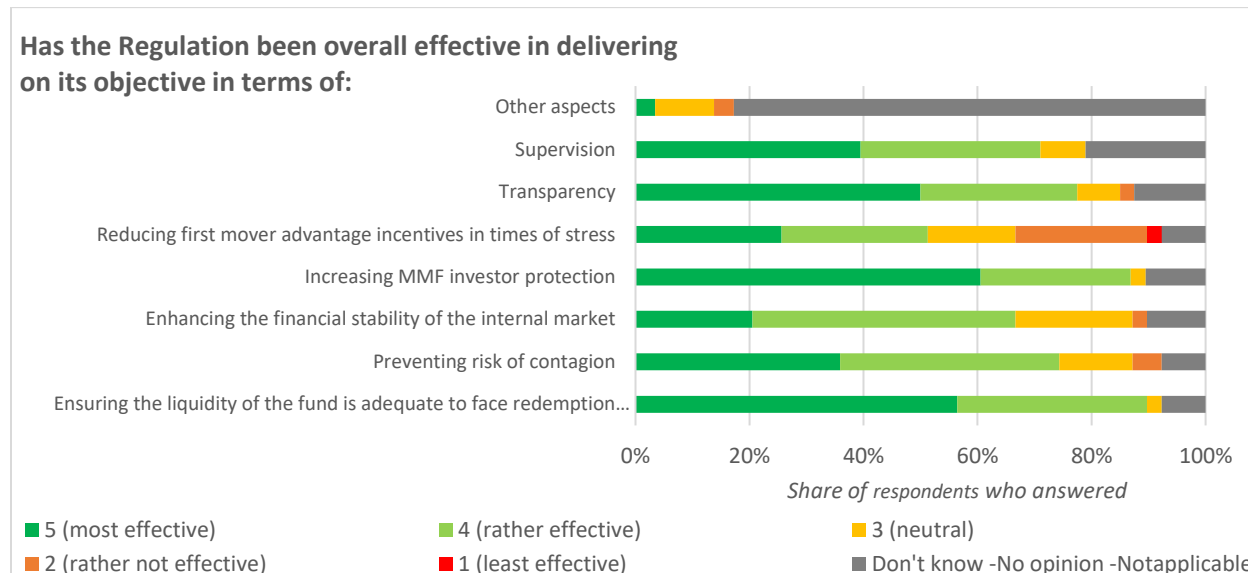
The targeted consultation was split in three sections. The first section addressed all respondents, the second addressed primarily investors in MMFs and the third addressed primarily managers of MMFs.

1. Assessment of the functioning of the MMF Regulation

Overall, the vast majority of respondents saw the MMF Regulation as effective in achieving its objectives.

Among those who answered, the largest group of respondents considered the MMF Regulation as overall effective (89% altogether, split between 56% as most effective and 33 % as rather effective) in ensuring liquidity of funds facing redemption requests, in increasing investor protection (87% altogether - 61% as most effective and 26% as rather effective) and transparency (78% altogether - 50% most effective, 28% rather effective). A slight majority of respondents also considered the MMF Regulation as overall effective in removing first mover advantages in times of stress (52% altogether, split between 26% as most effective and 26% as rather effective). However, for all questions, a rather high share of respondents did not state an opinion or did not know.

Graph 2: Effectiveness of the MMF Regulation



Many respondents substantiated their point of view with the fact that MMFs were able to face redemption requests during the market turmoil induced by the COVID-19 crisis and no EU MMF had to introduce redemption fees or gates due to the implementation of minimum liquidity requirements. Some asset managers saw especially the introduction of the Low Volatility Net Asset Value (LVNAV) MMFs category as a useful new tool in the constant net asset value (NAV) universe because of its ability to round to 1.00. Several respondents also mentioned that LVNAVs are sold to a wide range of investors all over the world that continue to be confident in them, since they did not experience the same outflows as credit MMFs, which showed that the supposed ‘cliff edge’ risk did not materialise even in the market turmoil of 2020. Besides, in the further explanation, many respondents – both investors and asset managers – mentioned that EU MMFs are very transparent.

Other respondents considered the link between liquidity (30% weekly liquid assets (WLA) requirement) and the activation of liquidity management tools (LMT) as a factor that reduced the effectiveness of the MMF Regulation.

Most respondents did not see any need for strengthening the rules on supervision, as MMFs are considered very transparent and national competent authorities (NCAs) have proved so far effective in supervising the operation of EU MMFs.

Regarding the cost efficiency of the MMF Regulation, among those who answered 47% of the respondents saw the cost efficiency as neutral, whilst 17% did not state an opinion or did not know. Mostly, they saw neither an undue burden created by the MMF Regulation nor a need for further simplification.

The majority of respondents (63% in total, split between 29% rather relevant and 33% most relevant) saw the MMF Regulation as overall relevant with evolving objectives and needs. Hence, they mentioned only some points, which, in their opinion, would need a targeted adjustment.

Some respondents saw the MMF Regulation as coherent (36% in total – split between 17% rather coherent and 19% most coherent) with other EU related frameworks, while 44% of the respondents did

not express an opinion on the coherence of the MMF Regulation. A smaller group of respondents (27% in total split in 2% most coherent and 25% rather coherent) considered the existing EU provisions as coherent with each other, while 54% of respondents did not answer or did not know.

Regarding EU value-added, 58% of respondents (split between 50% rather successful and 8% most successful) considered the intervention at EU level as justified and continuing to be justified. Some stakeholders substantiated this with the fact that compared to national frameworks, the MMF Regulation has created a level playing field within the EU.

The majority of respondents (67% altogether, split between 38% most successful and 25 % rather successful) was convinced that the MMF Regulation made MMFs more resilient to overcome the March 2020 events compared to 2008. In their further explanation, respondents nuanced slightly their answer by explaining that the 2008 crisis had endogenous roots while the COVID-19 events had exogenous causes, which made the comparison difficult. Regardless, respondents reported that the MMF Regulation increased the liquidity levels of MMFs, which made them more resilient to liquidity shocks. Furthermore, increased reporting requirements led to more transparency.

Some respondents added that in France, MMFs filled the liquidity gap when the Negotiable European Commercial Paper (NEU CP) market, which is an important source of liquidity of corporates, was closed during the COVID-19 crisis. MMFs were then able to meet the demands for outflows from French companies that experienced a sharp decline in their cash inflows as a result of the crisis.

2. Possible changes to the MMF Regulation

Respondents were asked which impacts they would expect on them and on other relevant stakeholders if LVNAV or public debt constant net asset value MMFs (CNAV) MMFs were not available anymore.

The answers show that respondents were rather critical about the possibility of removing LVNAVs. Many respondents saw the risk that in this case, investors would seek alternative cash management solutions, especially as there would not be enough options for overnight cash investments.

Respondents appreciated the utility of LVNAV and particularly the operational ease of use for investors because of the ability to round the share price within 20 bps. This facilitated to convert in cash immediately since investors did not need to recognise the very small unrealised capital gains and losses in the portfolio when they redeemed cash. Besides, it was an important feature of LVNAVs as it underpinned their ability to get the “*cash and cash equivalent*” treatment. Should LVNAVs not be available anymore, respondents feared a lack of alternative funding options and diversification.

Some French respondents seemed rather neutral about removing LVNAVs since in France, investors mostly subscribed to Variable NAV (VNAV) funds as those are integrating the market value of the fund through the daily NAV and they can qualify for the classification of “*cash and cash equivalent*” under certain conditions.

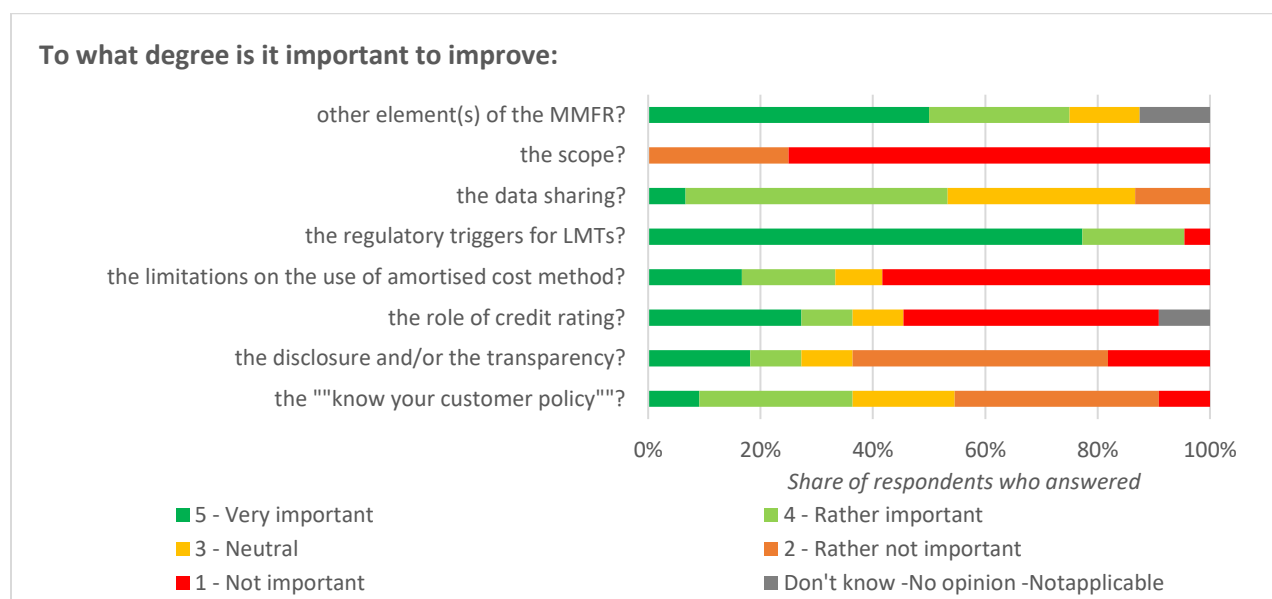
Regarding public debt CNAVs, the consultation showed that many respondents did not invest in this type of MMFs, since they were too small for the cash needs of investors and they did not meet their liquidity requirements. Therefore, the consultation showed that those funds not act as alternative in the event of

the removal of LVNAVs. Moreover, many respondents argued that there were uncertainties across the EU regarding the accounting treatment as “cash and cash-equivalent”.

French respondents, in contrast, did not fear strong consequences in the French market, since French investors rarely invest in public debt CNAVs.

According to their replies, a large group of respondents would not agree with the removal of any of these well-established fund structures. They feared that this would be harmful to European investors and to the Capital Markets Union, since it would reduce the choice of investments between different types of MMFs.

Graph 3: Improvement of the MMF Regulation



Participants were asked which points of the MMF Regulation should be improved in their opinion. There was a rather limited number of answers to the question, which suggests the results need to be interpreted carefully.

Nevertheless, through the given answers it became apparent that for a significant group of respondents it was important to improve the regulatory triggers for LMTs, since 77% of the stakeholders who responded to this question consider this as very important and further 18% as rather important.

In particular, respondents requested the removal of the link between liquidity requirements and the activation of LMTs (liquidity fees, gates, suspension of redemptions), since this could act as a procyclical signalling mechanism in the eyes of the investors and the market. However, respondents underlined that the possibility to activate LMTs was important for fund managers, but they would need more flexibility regarding the choice, timing and calibration to act in the fund’s best interest.

The second most commonly mentioned area for improvement was data sharing with supervisors (8 responses, 53% in total, split between 7% very important and 47% rather important), which stakeholders saw as an opportunity to enhance the cooperation between NCAs and EU authorities.

Other possible improvements did not have much support among stakeholders who answered the question. Regarding the improvement of the “know your customer policy” the answers showed divided opinions. Those who see the improvement as important explained that knowing the individual use of MMFs was helpful for fund managers to anticipate redemptions and so to manage the liquidity. Some other respondents appreciated the functioning of the policy and thus did not wish a further improvement and others proposed other improvements.

3. MMF investor attitudes

The investors were asked about their reasons for investing in the different types of MMFs. The majority of respondents did not express an opinion to these questions. Thus, the following answers may not be seen as a global point of view.

a. Main reasons to invest in public debt CNAVs:

The most commonly mentioned reason to invest in public debt CNAVs was the possibility of a short-term investment, which optimises returns while preserving liquidity (15%). Respondents underpinned their answer with the explanation that public debt CNAVs are the most cautious fund type and the closest proxy to cash.

Likewise, accounting reasons, especially the classification as “*cash and cash equivalent*” were seen as a significant factor for an investment in public debt CNAVs.

b. Main reasons to invest in LVNAVs:

A core reason for investments in LVNAVs, which was most commonly mentioned by respondents (17%) is the possibility of a short-term investment, since it is a way to preserve liquidity. Other reasons mentioned by respondents for investing in LVNAVs include accounting reasons (6%), operational use (4%) and margin call management (2%).

In the further explanation, several respondents indicated security, liquidity and flexibility, as well as diversification and a good cash management solution to fulfil margin calls. For some respondents it was especially important that LVNAVs could be classified as “*cash or cash equivalent*”.

c. Main reasons to invest in standard VNAVs:

The most commonly mentioned reasons to invest in standard VNAVs were the possibility of a short-term investment (17%), accounting reasons (6%) and operational use (4%).

Respondents explained this with the fact that standard MMFs have lower liquidity requirements and that the returns are more volatile than in short term MMFs.

However, some respondents mentioned that the “*cash or cash equivalent*” accounting treatment was not consistent in all EU Member States and this uncertainty deterred the investors from investing in standard VNAVs.

d. Main reasons to invest in short-term VNAVs:

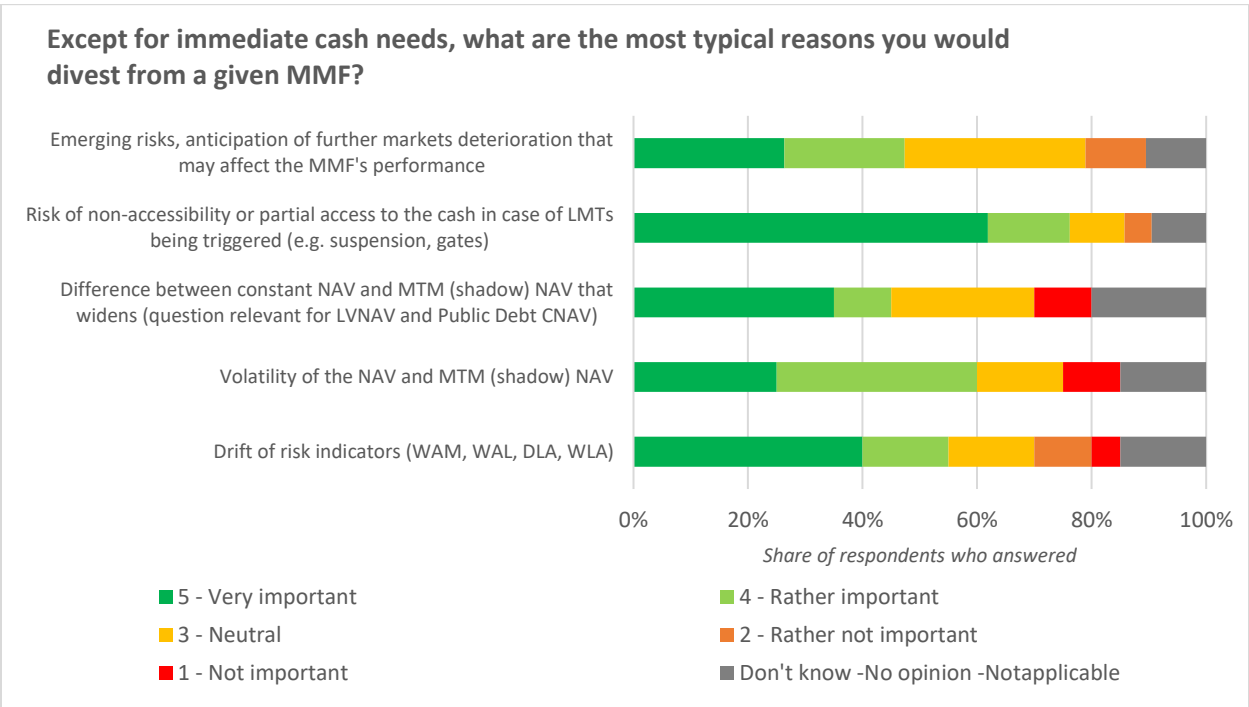
The main reasons to invest in short-term VNAVs mentioned by respondents were short-term investment (17%), operational use (10%), accounting reasons (8%) and margin call management (6%). However –

like for standard VNAVs – the “cash and cash equivalent” accounting treatment of short-term VNAVs was not consistent across EU Member States.

The participants were asked about potential reasons for divesting from an MMF. Most of them did not answer, but for the respondents that answered to the question, the risk of non-accessibility to cash was the most important reason to divest, since the immediate access to liquidity was a core purpose of MMFs. Also a drift of risk indicators would be a reason to divest, since they indicate the fund’s overall liquidity. Investors focussed particularly on the 30% WLA threshold. Besides that, for respondents the volatility of the NAV and Mark-to-Market (MtM (shadow)) NAV would be a reason to divest, especially when an LVNAV would not maintain the constant NAV and its NAV would experience volatility.

In general, the participants who responded seemed to focus on liquidity, whilst the yield was less important to them.

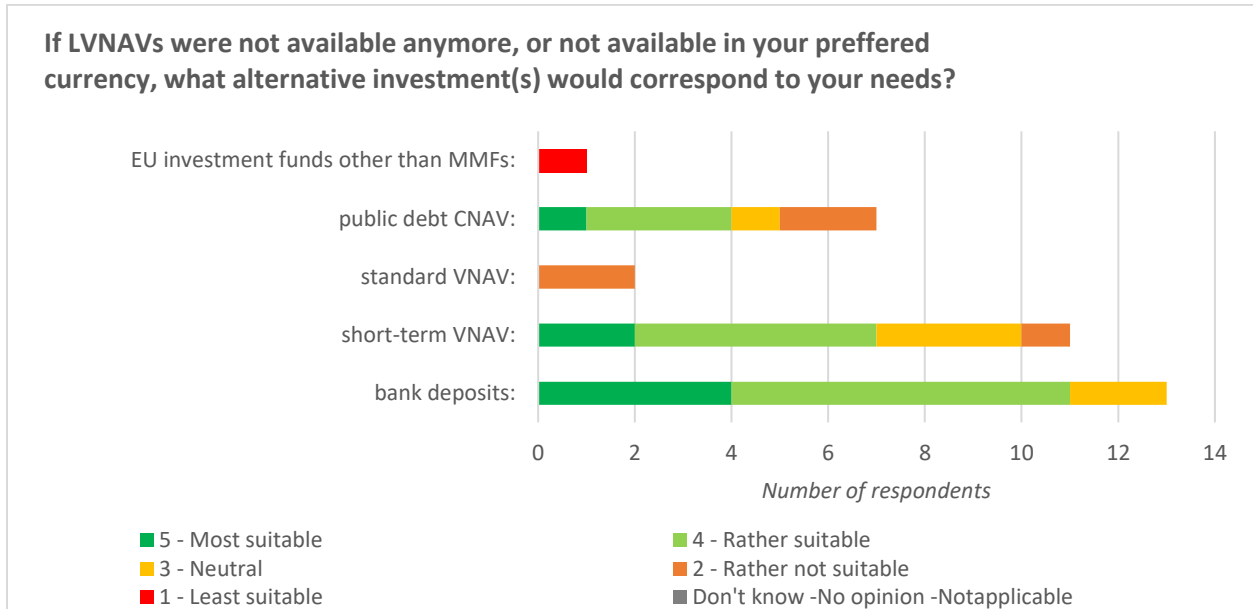
Graph 4: Reasons to divest from a given MMF



Only a limited number of answers was received regarding suitable alternatives in case LVNAV were not available anymore, making the sample too small to make any meaningful conclusions. Among those who provided an answer, relatively more respondents would use bank deposits as an alternative instrument. Some would also use short-term VNAV or, to a lesser degree, public debt CNAV. Bank deposits corresponded to their needs in terms of “cash and cash equivalent” accounting treatment, however the counter party credit risk would increase. One main reason for those who saw short-term VNAV as the most suitable alternative was that those provide the same minimum liquidity requirements as LVNAV.

Some respondents did not see any feasible alternative for LVNAV, as they have certain characteristics which were essential for investors.

Graph 5: Alternative investments if LVNAV were not available anymore



IV. CONCLUSION AND NEXT STEPS

Overall, the respondents saw the MMF Regulation as effective in achieving its objectives including the objective of strengthening the resilience of MMFs. They also noted EU value added and relevance of this legal framework, while assessment of its cost-effectiveness and coherence by stakeholders was more mixed. According to the consultation results, the majority of respondents was not supportive of the removal of public debt CNAVs or LVANVs. Among possible improvements to the MMF Regulation, many respondents considered that the automatic activation of LMTs when crossing certain daily or weekly liquidity thresholds was not warranted and they were in favour of removing such a link. Other possible changes received lower support. The results of the targeted public consultation will feed into a broader thinking about possible adjustments to the MMF framework in the future.