European Fund and Asset Management Association

EFAMA's RESPONSE TO THE IOSCO CONSULTATION REPORT ON MONEY MARKET FUND SYSTEMIC RISK ANALYSIS AND REFORM OPTIONS

26 June 2012

EFAMA welcomes the opportunity to submit its views on the IOSCO Consultation report on money market fund systemic risk analysis and reform options.

EFAMA is the representative association for the European investment management industry. EFAMA represents through its 26 member associations and 58 corporate members approximately EUR 14 trillion in assets under management of which EUR 7.9 trillion was managed by approximately 54,000 funds at end 2011.[1]

Out of the total of investment fund assets, the assets of money market funds (MMFs) domiciled in Europe amounted to EUR 1,053 billion at end 2011, with EUR 545 billion invested in variable net asset value (VNAV) MMFs and EUR 508 billion in constant net asset value (CNAV) MMFs. Both types of MMFs are managed by fund managers based in Europe and are therefore represented by EFAMA.

The views expressed in this response are shared by all EFAMA member associations and corporate members, except for the question on MMFs' susceptibility to runs. CNAV MMF managers consider that both CNAV and VNAV funds behave similarly in normal and stressed market environment, whereas VNAV MMF managers consider that VNAVs are less susceptible to runs as investors understand that the NAV can and will fluctuate like any fund's NAV. This being said, all EFAMA members believe that some regulators have already imposed reforms to strengthen the resilience of MMFs, such as the SEC's 2010 rule amendments and the CESR guidelines on a common definition of European money market funds. Hence, at this stage, the reform of MMFs should focus on the fund's internal liquidity risk, including by requiring money market funds to adhere to certain liquidity requirements (such as by stipulating that a minimum amount of a fund's portfolio should mature within one day and within five business days) and to know their clients by taking into account client concentration and client segments, industry sectors and instruments, and market liquidity positions.

[1] For more information about EFAMA, please visit www.efama.org

SYSTEMIC RISK ANALYSIS

QUESTION 1

Do you agree with the proposed definition of money market funds? Does this definition delimit an appropriate scope of funds to be potentially subject to the regulatory reform that the FSB could require to be put in place, with an objective to avoid circumvention and regulatory arbitrage?

The Report defines a MMF as "an investment fund that has the objective to provide investors with preservation of capital and daily liquidity, and that seeks to achieve that objective by investing in a diversified portfolio of high-quality, low duration fixed-income instruments."

We agree that a MMF must have the objective of preserving the principal of the fund and the daily liquidity of the fund. However, we find that it would also be useful to note that MMFs also aim to provide a return in line with money market rates.[2] This clarification would be useful to inform investors about the risk tolerance of MMF investment strategy. In other words, we support the definition proposed by CESR in its guidelines on a common definition of MMFs, i.e. a MMF must *"have the primary investment objective of maintaining the principal of the fund and aim to provide a return in line with money market rates*."

When disclosing information to investors about their objective, MMFs should ensure that they understand that MMFs are not the same as bank deposits. They are an investment product, with associated investment risks. Investors in MMFs continue to bear the risks and rewards associated with the funds underlying investment portfolios and strategies. It should also be clear that the objective to preserve capital is not a capital guarantee.

We also believe that the proposed IOSCO definition of MMFs should clarify the instruments into which MMFs are allowed to invest, following the approach taken in the CESR's guidelines.

Finally, we fully support the view expressed in the Report that the definition should be broad enough to cover products that seek to arbitrage around money market fund regulation. This being said, it is essential to restrict the use of the "money market" to the funds that comply with a strict and homogenous definition. In this regard, we strongly believe that the CESR guidelines on MMFs provide a good basis for a common definition of MMFs.

[2] This point is also highlighted in the CESR's Guidelines on a common definition of European money market funds (Ref: CESR/10-049).

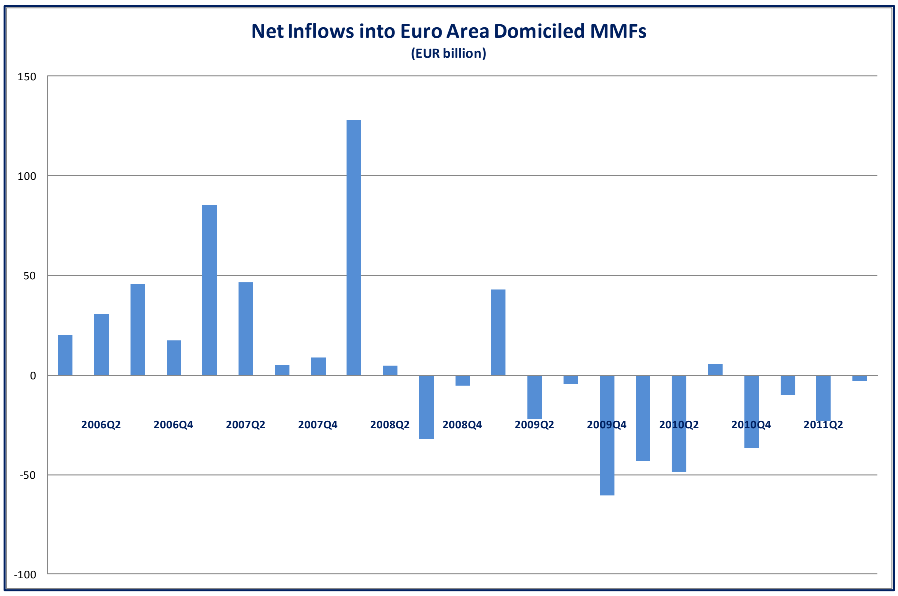
QUESTION 2

Do you agree with the description of money market funds' susceptibility to runs? What do you see as the main reasons for this susceptibility?

In our view, the susceptibility of MMFs to runs should not be overestimated, for the following reasons:

- In 2007-2008, euro area domiciled MMFs experienced net outflows only when the market for short-term credit ceased to function following the Lehman bankruptcy in the third quarter of 2008. <u>While MMFs were associated with systemic risk, it can hardly be argued that they were a cause of – or amplified – systemic risk, particularly in regard to the financial chaos of 2008</u>.

- In 2010-2011, investors reduced significantly their holdings of MMFs, mainly because of the competition from bank deposits and the low level of short-term money market rates. <u>There is no evidence, however, that investors redeemed preemptively from their funds to be on the side of caution.</u> What is certain is that MMFs were able to cope with the withdrawals without being forced to sell securities at fire-sale prices.



Concerning the developed in Europe in 2007, we agree that the financial crisis caused strains among MMFs in Europe after the outbreak of the subprime crisis. Investors' concerns about the quality of MMFs reflected the fact that a small number of "cash-enhanced" funds had purchased asset-backed securities to boost their returns. The difficulties experienced by these funds, which were not classified as MMFs, created confusion for investors about the definition, classification and risk characteristics of MMFs. This point was recognized by the

IMF Global Financial Stability Report of October 2010 and by the ECB in its Monthly Bulletin of October 2010.[3]

These strains led EFAMA and IMMFA to develop a pan-European definition of MMFs to clarify what the "MMF" label should include. This joint work helped CESR to issue guidelines which created the first common regulatory definition of the European MMF.[4] In our view, the guidelines represent an appropriate regulatory response to the problems experienced by MMFs in Europe in 2007. This point is explained further below.

It is also true that the financial instability arising from the Lehman Brothers' bankruptcy, the run on the Reserve Primary Fund and the freezing of credit and money markets, created pressures for MMFs in Europe in September 2008.[5] The difficulties were compounded by the broad extension of state-supported guarantees to bank deposits, which are the greatest competitor of MMFs in Europe.

At the time, the industry feared that redemptions could outpace investment managers' ability to raise liquidity because the market for short-term commercial paper had closed. In the end, however, the efforts by the industry and the measures taken by the ECB to support short-term money markets, proved effective, and the pressures faced by MMFs started to recede in November 2008, without necessitating any intervention by governments.

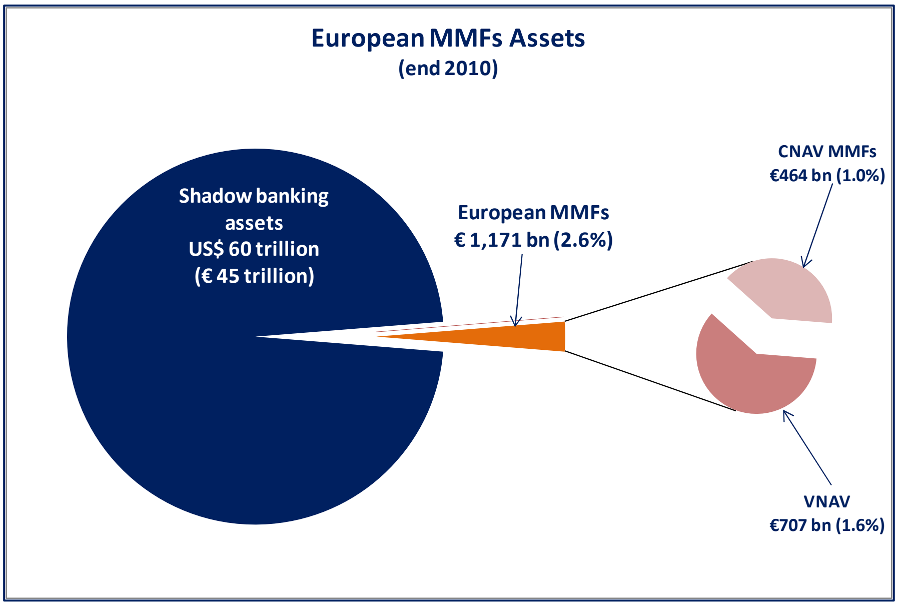
[3] See ECB Monthly Bulletin October 2010, p. 20.
[4] For detailed explanation about the CESR/ESMA guidelines go to http://www.esma.europa.eu/popup2.php?id=6639 and http://www.esma.europa.eu/data/document/ESMA_273.pdf.
[5] Euro area domiciled MMFs recorded net outflows of EUR 32 billion in the third quarter of 2008.

QUESTION 3

Do you agree with the description of the role of money market funds in short-term money markets? To what extent this role may create risks for short-term funding markets and their participants? Are there changes to be taken into account since the 2007-2008 experience? What are the interdependencies between banks and MMFs and the risks that are associated?

We agree that MMFs are important providers of short-term funding to financial institutions, businesses and governments. However, the importance of this role and of the risks associated with the link of MMFs to the short-term markets should not be overestimated as MMFs have not reached a systemic size in Europe.

Out of the assets in the shadow banking system reported by the FSB in its report dated 27 October 2011 (USD 60 trillion or EUR 45 trillion), the assets of MMFs domiciled in Europe amounted to EUR 1,171 million at end 2010 constant NAV MMF assets domiciled in Europe totaled EUR 464 million.

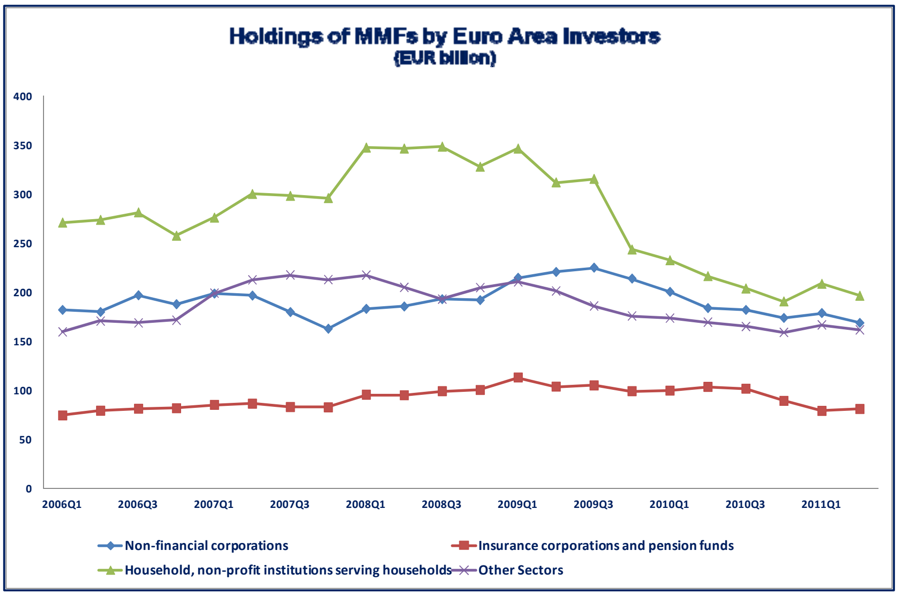


For illustrative purpose only given that MMFs are highly regulated investment vehicles which should not be labeled shadow banking entities.

Monetary data from the European Central Bank (ECB) show that MMF shares/units held by euro area investors are very small relative to the deposits managed by euro area credit institutions (only 3.7% at end 2010).[6] At the end of September 2011, MMF shares/units were held by euro area investors in the following way: households (EUR 196 billion), non-financial corporations (EUR 169 billion), insurance corporations and pension funds (EUR 81 billion), and other sectors (EUR 162 billion).

[6] Source: ECB Statistical Data Warehouse.

The ECB data also show that MMFs held less than 2% of all debt securities issued by euro area non-financial sectors in mid 2010, and 7% of all debt securities issued by euro area credit institutions.[7]



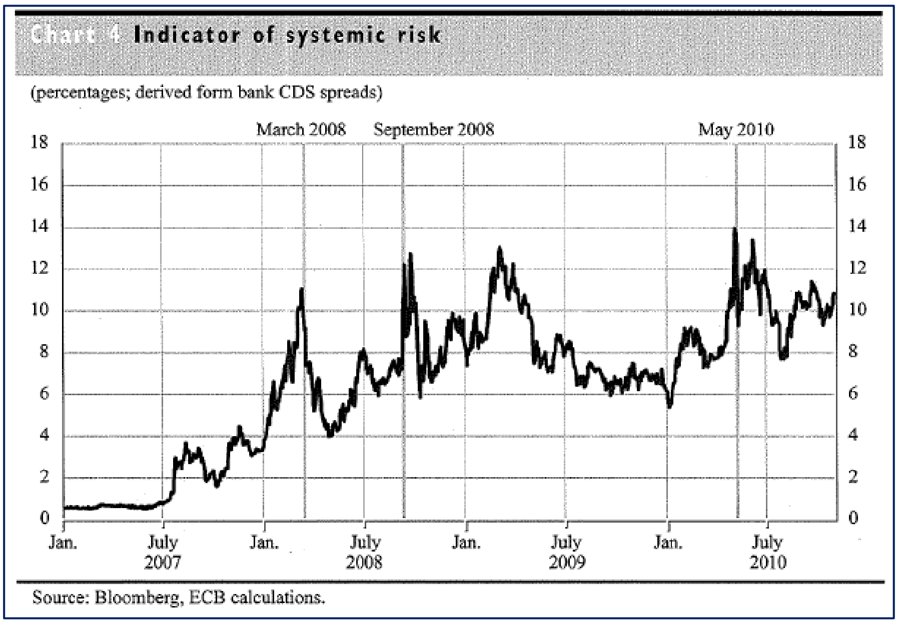
Two conclusions can be drawn from these statistics:

- The share of European MMF assets in the so-called "shadow banking system" is very limited in both absolute and relative terms (only 2.6% of the total assets of the shadow banking system reported by the FSB).

- Bank deposit is the principle vehicle used by retail investors in Europe to manage their cash and MMFs are playing a very modest role in credit intermediation in Europe. This is largely due to the fact that European financial system is bank-dominated.

Concerning the impact of the European sovereign debt crisis, the next chart shows the time series of a systemic risk indicator derived from bank credit default swap spreads.[8] We can see that euro area systemic risks in May 2010 were even higher than in September 2008. The origin of the tensions is well-known: the Greek crisis has turned into a European sovereign debt crisis, which created doubt about the solidity of the euro and the solvency of banks.

[7] Source: ECB Monthly Bulletin October 2010, p. 23.
[8] The chart was presented at the 6th ECB Central Banking Conference in November 2010 by Lorenzo Bini Smaghi.



These developments forced European banks to accelerate their deleveraging process and take measures to increase the share of deposits on their balance sheets. As a result, MMFs suffered a very strong competition from banks which led to significant net withdrawals. The process was mainly supply-driven in the sense that many banks, particularly in Continental Europe, have actively encouraged their clients to reallocate their portfolios out of MMFs to deposits. The steepening of the yield curve, with money market yields moving to unprecedented lows, also had an impact on the attractiveness of MMFs as an investment vehicle.

While the cumulative outflows created pressure on MMFs, they didn't create a run on MMFs. In other words, investors have not reduced their investment in MMFs on the basis of news about withdrawals from MMFs and fears about the capacity of MMFs to withstand the pressure associated with the cumulative outflows.

QUESTION 4

What is the importance of sponsor support for MMFs? What is the respective percentage of bank versus non-bank sponsors in the MMF industry? Are there differences among MMFs depending on their sponsors? What are the potential systemic risks of support or protection against losses provided by sponsors?

Sponsor support may be provided on a voluntary and occasional basis to MMFs or other types of funds. However, investors should not be encouraged to expect sponsors to support their MMFs against losses. In other words, it should be clear to investors that the risks they are taking when investing in a MMF cannot be transferred to a third-party.

QUESTION 5

Do you agree with the description of MMF benefits? Are there other benefits of MMFs for investors than those outlines in this presentation? What are the alternatives to MMFs for investors? How has investor demand for MMFs recently evolved? What would lead investors to move away from MMFs to other financial products?

MMFs allow corporate treasurers and other institutional investors to manage deposit credit risk through diversification, thereby avoiding the risk associated with the concentration of deposits in a few select banks and the absence of unlimited deposit guarantee schemes. The alternative to MMFs is direct holdings of short-term debt instruments albeit at higher portfolio management costs (as compared to the outsourcing solution). For retail investors the only feasible alternative, apart from structured products, is a bank deposit with both alternatives exhibiting huge counterparty risk.

MMFs also offer companies possibilities to diversify their financing from bank loans to securities, by maintaining a certain level of demand for securities issued by companies. In this way, MMFs constitute alternative funding for the real economy, which is particularly useful when traditional banking or market channels become temporarily impaired. As Commissioner Barnier stressed in his speech at the conference on the shadow banking system on 27 April, financial intermediation should not be left entirely and solely in the hands of banks. Indeed, alternative sources of financing have an important role to play in these difficult times for the European economy, where the banks have to adhere to more stringent prudential ratios.

Along the same line of thinking, we concur with what Jean-Pierre Jouyet, the AMF President, said at the same Conference when he emphasized that "we need non bank credit; we need vibrant and active financial markets, be it securities or derivatives markets, and various and numerous financial intermediaries and vehicles, to ensure a smooth functioning of our capital markets."

QUESTION 6

Do you agree with the proposed framework comparing money market funds and bank deposits? Are there other aspects to consider?

It is not appropriate to assume that MMFs are entities that are exposed to similar financial risks as banks, without being subject to comparable constraints imposed by banking regulation and supervision. Indeed, the maturity/liquidity transformation performed by MMFs is an order of magnitude significantly less than that performed by banks, and is subject to tight controls. The asset/liability maturity mismatch of MMFs is very limited and the credit quality of their portfolio is high. Furthermore, MMFs do not make loans but instead invest in marketable securities. As UCITS, they may borrow up to only 10% of their assets, as long as these are temporary borrowings and such borrowings may not be used for investment purposes.[9] This possibility, which is not used by all MMFs, can be considered as a first line of action to allow MMFs to cope with larger-than-expected withdrawals.

Concerning more specifically the question of liquidity mismatch, under "normal" market conditions a MMF has daily liquidity as do the short-term debt instruments the fund invests into. As such no liquidity transformation takes place and no liquidity mismatch occurs. It is worth noting that this is also true for a MMF with daily liquidity even where its duration exceeds one day because the underlying securities have daily liquidity as well. Only if the securities the fund is invested into no longer have daily liquidity, for example due to an abnormal market situation, and the fund maintains its daily liquidity to its investors (especially to those redeeming shares), there is a liquidity mismatch. Such a case can be addressed by liquidity risk management (as already established under UCITS IV) and where the situation does not improve, by a (temporary) suspension of redemption (equally possible under UCITS).

Concerning liquidity risk management, it can be added that all UCITS managers are required to employ an appropriate liquidity risk management process in order to ensure that the funds they manage are able to meet redemption requests from investors. This liquidity risk management process is part of the permanent risk management function that UCITS management companies must establish which must be functionally and hierarchically independent from other departments within the management company. Managers are required to measure and manage the risks to which the fund is or might be exposed, including the risk of massive and unexpected redemptions.

Against this background, we do not regard MMFs as maturity or liquidity "intermediaries" but rather regulated collective investment schemes pooling assets and investing into short-term securities that are available in the market place. We would emphasize that the only intermediary function of MMFs relates to lot size where (retail) investors get a diversified short-duration exposure which they otherwise could not get due to minimum investment sizes of securities. It should also be stressed that the client base of banking deposits and MMFs is very different. Whereas banking deposits are used by all citizens to meet their cash

[9] See Article 83 of the UCITS Directive.

needs, MMFs attract in majority institutional clients who are sophisticated investors that can and do understand investment risk.

QUESTION 7

Are there other similarities or differences between CNAV and VNAV funds which would be useful for the analysis? Is there evidence (based on representative samples) showing differences in the fluctuation of the funds' NAV depending on their model? What is the extent of the use of amortised cost accounting by VNAV funds? Has this practice evolved over time?

The net asset value of VNAV MMFs is valued based on the most current market valuation. In general, only when market prices are not available at the very short end of the yield curve, VNAV MMFs are entitled to apply amortised accounting to negotiable debt instruments with less than three months residual maturity – instrument by instrument – and no specific sensitivity to market parameters.

CNAV funds apply amortised accounting to instruments with less than 397 days residual maturity. The use of amortised accounting to calculate their net asset value is in line with the CESR's guidelines concerning eligible assets for investment in UCITS. CNAV funds must ensure that the amortization method does not result in a "material discrepancy" between the value of the money market instrument and the value calculated according to the amortization method. In practice, a material discrepancy is assessed by comparing the amortised price of the portfolio with an alternative estimate of its market price. That alternative estimate comprises actual market prices where they are available, and model prices where they are not - for example, prices modelled off of an issuer's interest rate curve. That alternative estimate of the market price is called the "shadow price".

As many money market instruments, for example commercial paper and certificates of deposit, are LIBOR referenced but difficult to price because the market trades OTC, it is important to allow MMFs to continue applying amortized accounting subject to certain tests. Finally, it should be noted that in some countries the availability of CNAV MMFs provide investors with the same tax and accounting treatment that would apply if they invested directly in their own cash management portfolios and thus reduces the administration costs for investors, providing ease as the return is qualified as "income" and not "capital gain".

QUESTION 8

What is the importance of ratings in the MMF industry? What is the impact of the monitoring function of credit rating agencies for MMFs? What are the potential systemic risks associated with ratings in the MMF industry?

MMFs AAA-ratings are important because of the willingness of certain clients in some countries to invest in AAA CNAV funds. External ratings provide an external validation that the portfolio of the fund satisfies a series of independent criteria in order to qualify for the rating. This was particularly important where there was no pan-European regulatory definition of a MMF.

Notwithstanding the fact that investors value MMF ratings, there are concerns with the way in which the rating agencies have performed in recent years: their credibility has undoubtedly been affected. It would therefore appear appropriate to review the methodology employed by credit rating agencies and their reliability with a view to identify and correct weaknesses.

On the use of ratings to assess whether a money market instrument is of high quality, as explained in our response to Question 29, we are strongly in favour of removing the regulatory prohibition to invest in a MMF that would not have been awarded one of the two highest available short-term credit ratings by some credit rating agencies.

We would also like to draw IOSCO's attention to two additional problems raised by ratings:

- The lack of flexibility of the rating agencies in case of an issuer's downgrade can produce herding behaviour in the market place and therefore a certain pro-cyclicality, particularly on the downside.

- The rating of bonds bears little forecasting capability as a couple of defaults happened without the rating agencies being able to issue early enough warnings of the deterioration in credit. With this in mind it is not realistic to expect that a rating of MMFs offers any additional information value to investors.

QUESTION 9

Are existing rules adequately addressing risks regarding the management of collateral from money market funds? What are the risk management processes currently in place with regard to repo and securities lending transactions? Do MMFs present unique issues with regard to their use of repo markets or would general policy recommendations that the FSB may issue regarding repo markets be applicable?

Repos are used by MMFs. On the other hand, securities lending is not very frequent for MMFs given the counterparty risk facing the securities lenders.

It should be emphasised that repos that are used by MMFs as part of their normal conduct of business, and especially for day-to-day cash management. Such repos involve a short-dated maturity and are fully collateralised. In addition to the fact that the repos are short-dated, they very often allow both parties to terminate the transaction early (within 24 or 48 hours), which is a positive feature for MMFs. The securities taken as collateral are also usually highly-rated, and liquid, so they are easily priced. That means cash collateral agreements (which can also be called "margining arrangements") can be implemented so as to take into account variations in the market value of the collateral, if any. It is important to point out that the fact that the collateral attached to the repo transaction implies that, all other things equal, repos are less risky than other collateral-free financial instruments such as direct buying of debt securities.

The key is the adequacy of the investment risk management process to ensure sufficient liquidity in the fund. Current processes are governed by market practices/regulatory rules and legal documents. These are designed to ensure the effectiveness of close-out provisions and the enforceability of the collateral upon insolvency of a counterparty.

QUESTION 10

Are the above-mentioned changes in the environment of MMFs relevant factors to take into consideration? What are some of the implications for regulatory options? Are there other aspects to consider?

We agree that recent changes in the regulatory markets and market developments should be taken into account when contemplating further reform:

- The current low interest rate environment means there is little capacity to increase costs on either MMF investors or MMF sponsors (who are waiving fees in order to maintain that marginal yield).

- As noted above, the lack of a pan-European European classification of MMF highlighted the importance of the CESR/ESMA guidelines on a common definition of MMF based on defensive portfolio strategies and liquidity risk management system for being prepared for a long-lasting liquidity shock.

- The Basel III proposals to strengthen liquidity buffers and lessen asset/liability maturity mismatches in banks should be taken into account. More specifically, these proposals include obligations for banks which have constant NAV MMFs managed within their group to hold liquid assets and stable funding against that exposure.

QUESTION 11

Do you agree with the systemic risk analysis and the rationale for reform presented in this section? Are there other factors to consider?

While we understand the FSB's position that "*maturity/liquidity transformation within the shadow banking system, especially if combined with high leverage, raises systemic concerns for authorities because of the risk that short-term deposit-like funding in the shadow banking system can create "modern bank-runs" if undertaken on a sufficiently large scale"*[10], we consider that MMFs are not "shadow banks". The risks they pose to the financial system in Europe are extremely limited. They have not reached a systemic size and the recently reinforced regulatory framework provides a sound base for limiting the MMFs' susceptibility to runs or other systemic risks. This point is documented in the next table. We would like to highlight the following points.

The implementation of the new **CESR/ESMA guidelines**, which have taken effect in July 2011, represents a major and decisive step towards greater transparency and increased clarity. The guidelines crystallize the two-tier approach EFAMA and IMMFA had suggested in their initial proposal by creating two MMF subcategories: "short-term money market funds" and "money market funds". They also provide a robust framework to limit the main risks to which MMFs are exposed, i.e. interest rate risk, credit/credit spread risk and liquidity risk.

[10] See FSB report of 27 April 2011, p. 4.

Among other things, the reduction in the weighted average maturity (to no more than 60 days for Short-term MMFs and 120 days for MMFs) limits the overall sensitivity of the funds' NAV to changing interest rates, and the reduction of the weighted average life (to no more than 6 months for Short-Term MMFs and no more than 1 year for MMFs) limits credit and credit spread risk. Overall, the requirement to invest in high quality money market instruments reduces credit risks. In practice, the requirements from the CESR/ESMA guidelines and the UCITS Directive oblige MMF managers to keep high-quality and liquid portfolios to avoid running into liquidity difficulties.

According to the European Central Bank, the change in the definition brought about by the CESR/ESMA guidelines had a significant impact on the size of the MMF industry. In particular, in Ireland and Luxembourg, the redefined MMF industry was approximately 28% and 22% smaller respectively in terms of the total net asset value. The overall impact of changes to the reporting population in the euro area amounts to a reduction of EUR 193.7 billion (18%) of the MMF sector's total net asset value since July 2001.[11]

The **CESR/ESMA guidelines** also require managers of MMFs to draw investors' attention to the difference between the MMF and investment in a bank deposit. Enhancing investor awareness about the exact nature of MMFs will strengthen MMFs' resilience in crises.

It should also be noted that the vast majority of MMFs are **UCITS**. This means that their managers must, amongst others, employ a risk management process which enables them to monitor and measure at any time the risk of the positions and their contribution to the overall risk profile of the portfolio.[12] For a MMF, this includes a prudent approach to the management of currency, credit, interest rate, and liquidity risk and a proactive stress-testing regime. In addition, managers of MMFs must have appropriate expertise and experience in managing these types of funds.

We would like to conclude this section by quoting Willem Buiter, a highly respected economist:

> *"Liquidity is not a substance but a property of financial instruments. It is subject to network-externalities, and is fundamentally a matter of beliefs and trust. With confidence, optimism and trust, any security will be liquid. Without these, nothing is liquid. Therefore, for both funding liquidity and market liquidity, the provider of the ultimate, unquestioned source of (domestic currency) liquidity is a necessary participant in any socially efficient arrangement."*[13]

The provider of the liquidity should be the central banks. By standing ready to act as the ultimate source of funding liquidity (as lender of last resort) and as the ultimate provider of

[11] See ECB Monthly Bulletin April 2012.
[12] See Article 51 of the UCITS Directive.
[13] See "The role of central banks in financial stability: how has it changed", Willem H. Buiter (London School of Economics and CEPR), CEPR Discussion Paper No. 8780, January 2012.

market liquidity (as market maker of last resort), central banks can address or at least mitigate the risk that the market for short-term credit ceases to function.

We fully agree with Buiter's analysis. The reform of MMF regulation should not develop into a quest for the Holy Grail. *Liquidity* plays a crucial role in financial markets. Without some liquidity, financial markets cannot work properly. As soon as investors are more concerned about protecting themselves from liquidity risk than they are with making money, they start moving cash out of assets likely to be hurt by the loss of liquidity. When the flight to safety is broad based, it can set in motion a process of vanishing liquidity. In those market circumstances, the best remedy is to restore investor confidence. In the intervening period, the main objective of MMF reform should be to ensure that funds have appropriate liquidity risk management in place.

Susceptibility of European MMFs to Key Systemic and Run Risks Assessment of the Existing Regulatory Framework as a Line of Defense against these Risks	
Key Systemic Risk Factors[14]	**Existing Regulatory Framework**
Maturity transformation	The **CESR/ESMA guidelines** on the MMF portfolio WAM and WAL restrict very much the degree of maturity divergence between the MMF assets and liabilities.
Credit risk transfer	The **Basel II** enhancement of July 2009 provides a proper framework to address reputational risk/implicit support provided by banks to MMFs.
Leverage	The **UCITS Directive** ensures that MMFs operate with little if any leverage.
Liquidity transformation	The **CESR/ESMA guidelines** and the **UCITS Directive** ensure that MMFs invest in high-quality, liquid assets and employ a conservative risk management process and a proactive stress-testing regime.
Key Run Risk Factors[15]	**Existing Regulatory Framework**
Liquidity shock & credit event/deterioration	The global efforts toward financial reform undertaken by the **G-20/FSB** and the provision of funding liquidity and market liquidity by **central banks** constitute major steps to address some of the most important financial instability problems.
1st mover advantage	The **UCITS** criterion that MMFs must calculate their NAV to reflect the market value of their investment portfolios should prevent MMF investors from redeeming without paying the increased cost of liquidity.
Risk aversion of the investor base & flight to safer assets	The CESR/ESMA guidelines have created a high-quality MMF brand that ensures that the risks associated with MMFs are as low as the risk aversion of the investor base, and lower than the risk associated with other investment vehicles.
Uncertainty regarding availability of sponsor support	MMFs are investment funds which are not providing any capital guarantee. Therefore investors should not count on any sponsors to bail them out.

[14] Source: FSB report of 27 October 2011, p. 10-11.
[15] Source: IOSCO Document for Discussion in preparation of Industry hearing of 20 January 2012.

POLICY OPTIONS

Option 1: Prohibit the use of amortized cost valuation for any securities held by a MMF

QUESTION 12
Do you agree with the benefits of imposing a mandatory move from CNAV to VNAV, which would amount to prohibiting the use of amortized cost valuation for any securities held by a MMF? Are the challenges identified in the US context valid in other jurisdictions currently authorizing CNAV funds? How could these challenges be overcome?

Prohibiting the use of amortized cost valuation for any securities held by a MMF would sign the death warrant of the CNAV MMFs as currently implemented. We believe that CNAVs have not reached a systemic size in Europe. In addition, CNAV and VNAV MMFs have been offered in parallel in Europe for many years. Many investors find it convenient and efficient to diversify their assets in CNAV for tax reasons and because the variability in the price of a VNAV complicate their cash-flow planning. It is not clear that those investors will decide to move to VNAV as requiring a VNAV will reduce or eliminate the features of MMFs that make them attractive as a cash management vehicle to many investors of CNAV.

As far as VNAV are concerned, the net asset value is valued based on the most current market valuation. However, in general, when market prices are not available at the very short end of the yield curve, VNAV are entitled to apply amortised accounting to negotiable debt instruments with less than three months residual maturity – instrument by instrument – and no specific sensitivity to market parameters.

As many money market instruments, for example commercial paper and certificates of deposit, are LIBOR referenced but difficult to price because the market trades OTC, it is important to allow MMFs to continue applying amortized accounting subject to certain tests.

Option 2: NAV buffers

2.1 Market-funded NAV buffers: Require MMFs to issue a subordinated equity share class as a form of market-funded NAV buffer

2.2 Shareholder-funded NAV buffer

2.2.1 Version 1: Require MMFs to create a shareholder-funded NAV buffer

2.2.2 Version 2: Require MMF shareholders to purchase a certain amount of capital securities as a condition of investment in the fund's constant value shares

2.3 Sponsor-funded NAV buffer: Require MMF sponsors to provide financial s support for the funds that the sponsors implicitly assume

QUESTION 13

What would be the main effects of establishing a NAV-buffer? What would be the most practical ways to implement such buffers? Should various forms of NAV- buffers be allowed or should regulators favor a single option? What would be a realistic size of the NAV-buffer and what would be the impact in terms of costs for running MMFs? In the case of subordinated shares, could the option be seen as creating a securitization position, with associated requirements in terms of retention?

We have strong reservations against the proposal that MMFs should accumulate capital requirements or buffers as this policy approach would destabilize very much the business model of MMFs, especially in a situation like today where money market rates are at historically low levels. In addition, the proposed shareholder-founded NAV buffers are complicated systems likely to give rise to numerous questions which will be difficult to answer including the potential size of the buffer, whether it is high enough and to whom it actually belongs when investors redeem shares. Furthermore establishing a reasonable buffer size of 0.5-5% can be expected to take a long time depending on the amount of credit risk the MMF is exposed to. The complexity will be increased by should different forms of NAV buffer be allowed.

MMFs need to be fully transparent and easy to be explained to investors. Complex features such as those proposed would confuse the investment community, and lead to transfers into alternative investment vehicles.

In addition, we would like to make the following more specific comments:

- Shareholder-funded NAV buffers funded by retained earnings (option 2.2.1): the cost would be borne by first generation investors to benefit of late generation investors. This is not consistent with basic principles of securities regulation. Moreover, the capital accumulating process would be slow in today's low interest rate environment.

- Shareholder-funded NAV buffer funded by capital shares (option 2.2.2): we do not believe investors would invest in MMFs if they were required to make a parallel investment in riskier subordinated shares/capital securities. It defeats the purpose of their investment, i.e. to manage credit risk through diversification.

- Subordinated shares funded by sponsors (option 2.1) & Sponsor-funded NAV buffer (option 2.3): initially these options would result in a two-tier MMF industry, i.e. a top-tier comprising sponsors who have easy access to capital, and a bottom-tier comprising sponsors who do not have not easy access to capital. In the end, these options would cause sponsors of bottom-tier MMFs to lose market share to sponsors of top-tier MMFs. More importantly, if sponsors are requested to provide the capital, this would exacerbate investors' perception that sponsored-funded MMF are "obliged" to stand behind their funds. There is no reason to apply this solution to MMFs to the extent that they are investment products which might lose value.

Option 3: Insurance

QUESTION 14
Do you agree with the description of the challenges associated with the establishment of a private insurance? Are there ways to address them?

We agree that private insurers are unlikely to insure MMFs against losses. Pricing the risk would be very challenging. If such pricing would be take into account the specific risk of a MMF portfolio, we suppose the premium would be unaffordable. If such would be unresponsive to these risks, this would create moral hazard, which would serve a disincentive to prudent risk management.

Option 4: Require bank-like regulation for MMFs

QUESTION 15

Do you agree with the description of the challenges and potential second-round effects of a conversion of MMFs into special purpose banks? Are there ways to circumvent those effects?

We have strong reservations against the proposal that MMFs should be regulated like banks, presumably because of the functional similarities between MMF shares and bank deposits. This is not the right approach to strengthen the resilience of MMFs to stressed market conditions. The reform should be going in the opposite direction in order to

- enhance investor expectations that MMFs are not impervious to losses;
- prevent moral hazard by encouraging investors to search for the best MMF;
- encourage MMF sponsors to apply prudent risk management to avoid losing clients.

It should also be stressed that capital requirements would destabilize very much the business model of MMFs, especially in a situation like today where money market rates are at historically low levels. Consequently, imposing regulatory capital requirements or insurance coverage would have two additional consequences:

- force MMF sponsors to close their MMFs;
- lead institutional investors to direct their assets to unregulated instruments as bank deposits would not be an attractive option in the absence of government MMF insurance, one option that could not be realistically contemplated given its potential impact on government liabilities;
- reduce the availability of short-term credit.

Option 5: Permit both VNAV and CNAV funds with certain risk limiting conditions

5.1 Enhanced protection for CNAV

QUESTION 16

What are the main advantages and drawbacks of two-tier system(s)? Would it be sufficient to address the risks identified? What could be the conditions applicable to CNAV funds? What could be the potential impact on investor demand? Should certain funds be exempted from certain risk limiting conditions due to their holdings?

A two-tier approach has been functioning well in Europe for many years. The main advantage of a two-tier system would be to leave the choice to investor.

Along the line decided by CESR/ESMA in Europe, we agree that that a two-tier approach should recognize the distinction between two types of MMFs:

- "Short-term MMFs" which operate a very short weighted average maturity and weighted average life; and
- "MMFs" which operate a longer weighted average maturity and weighted average life

Only short-term MMFs are allowed to have a constant net asset value.

It should be stressed, though, that the core regulatory requirements should be the same for both types of MMFs, in particular regarding liquidity requirements, stress testing and "know your customer" principles.

While we agree that the investment strategy of CNAV should be limited by restrictions other than those relating to the WAM and WAL, we don't think that it would appropriate to request these funds to hold only government obligations. Indeed, the duration risk could well put the NAV under stress in the case of a steep rise in government yields, which is more probable to happen when yields are very low like nowadays. The CNAV would therefore be wrongly considered as low risk investment vehicles.

Option 5: Permit both VNAV and CNAV funds with certain risk limiting conditions

5.2 Reserve CNAV MMFs for either only retail or only institutional investors

QUESTION 17

Do you agree with the suggestion that reserving CNAV funds for only certain investors (i.e. retail or institutional investors) would face practical challenges and would not be sufficient to address the risks identified?

The distinction between retail and institutional investors is not always easy to make. Moreover, asset managers often do not know to which category belong the shareholders, as most funds have both retail and institutional investors.

The mix of retail and institutional investors in the same fund has also given some stability in the assets, as diversification among shareholders is positive: both categories do not have the same subscriptions/redemptions cycles.

QUESTION 18

Regarding the different structural alternatives described in Section 1 [questions twelve to seventeen], what are the benefits and drawbacks of the different options described above? How could they be prioritized? What are the necessary conditions for their implementation?

We would like to stress once more that MMFs are not banking products and are not (in the absence of a specific commitment of financial support) guaranteed by the manager or promoter. We believe IOSCO's "policy options" could be improved with a greater understanding of MMFs and how they operate. In addition we have very strong reservation against the proposition to prohibit the use of amortized cost valuation for any securities held by a MMF. We would to stress in particular that when the market price is not available, the only valuation possible is mark to model.

Mandatory move to variable NAV and other structural alternatives		
Policy Options	**Benefits**	**Drawbacks**
Move to VNAV	Limited benefit given the limited systemic risk posed by MMFs	• Elimination of CNAV • Administrative costs
NAV Buffer		• Very complicated • Costly for sponsors • Costly for investors • Shrinkage of MMF industry • Less financing of the real economy
Insurance		• Moral hazard (if low premium) • Shrinkage of MMF (if high premium) • Less financing of the real economy
Special Purpose banks		• Reduced return for investors • Competition between MMFs and banks for funding • Endangering the existence of MMFs • Less financing of the real economy • Search for less regulated products
Two-tier system		• No drawback

Option 6: Imposing marked-to-market valuation

QUESTION 19

What are the main benefits and drawbacks of imposing the use of marked-to-market accounting for all the instruments held by MMFs? What is the availability of market prices for securities commonly held by money market funds? Are there situations where this general principle could not be applied?

We recognise that marked-to-market valuation offers high transparency to investors, as they know that the price at which they subscribe or redeem does reflect market prices. All shareholders are therefore treated the same way.

However, we believe a limited use of amortised cost prices can be justified :

- First, whereas investors frequently transact in equity and fixed income securities, they tend to hold money market instruments to maturity. Consequently, whereas equity and fixed income markets provide a wealth of mark-to-market prices, money markets do not. Furthermore, many money market instruments, for example commercial paper and certificates of deposit, are LIBOR referenced but difficult to price because the market trades OTC. It is therefore important to allow MMFs to continue applying amortized accounting subject to certain tests, as amortised cost has proven reliable over the years.

- Second, the use of a "shadow price" should allow CNAV to provide price transparency to investors and to switch to the shadow price when the amortization method result in a "material discrepancy" between the amortised price of the portfolio with an alternative estimate of its market price. That alternative estimate should be based on a well accepted calculation method.

- Finally, we agree with IOSCO that for many securities, mark-to-market pricing is an approximation and so the cost involved in requiring mark-to-market pricing, even for securities very close to maturity, would not be justified. This concern is valid for all MMFs.

Option 7: Restrict the use of amortized cost accounting by MMFs

QUESTION 20

Should the use of amortized cost accounting be limited, and, if so, how? Are general restrictions on funds' WAM or WAL preferable? Are there practical impediments (e.g. availability of prices) to imposing stricter requirements on the use of amortized cost accounting than current existing regimes? What would be the potential effects on MMFs' investment allocation and short-term funding markets? What monitoring should be implemented? What conditions are advisable? In particular, please describe the rationale, feasibility and effects of limiting the residual maturity of instruments to [30-60-90-other] days. What materiality threshold could be proposed?

We fully agree that there should be limits on the use of amortised cost prices: otherwise, if amortised prices were materially higher (lower) than mark-to-market prices, there is a risk of disadvantaging (advantaging) subscribing investors relative to incumbent investors, and remaining investors relative to redeeming investors.

Existing limits on amortised accounting take a variety of forms, and need to be considered in conjunction with other risk constraints designed to protect investors, such as maximum WAM; maximum WAL; maximum final legal maturity; minimum liquidity requirements; minimum credit quality requirements; and asset diversification requirements.

We believe that the CESR's Guidelines Concerning Eligible Assets for Investment by UCITS provides a helpful model. In a nutshell, if a UCITS uses an amortization method, it must ensure that this will not result in a material discrepancy between the value of the money market instrument (MMI) and the value calculated according to the amortization method. The following UCITS/MMI will usually comply with the latter principles:

- MMI with a residual maturity of less than three months and with no specific sensitivity to market parameters, including credit risk; or

- UCITS investing solely in high-quality instruments with as a general rule a maturity or residual maturity of at most 397 days or regular yield adjustments in line with the maturities mentioned before and with a weighted average maturity of 60 days. The requirement that the instruments be high-quality instruments should be adequately monitored, taking into account both the credit risk and the final maturity of the instrument.

These principles along with adequate procedures defined by the UCITS should avoid the situation where discrepancies between the value of the MMI and the value calculated according to the amortization method would become material, whether at the individual MMI or at the UCITS level. These procedures might include updating the credit spread of the issuer or selling the MMI.

Regarding the relative merits of the options for limiting the use of amortised cost prices discussed in the Report, a reduction to 60 or 30 days as a limit for asset's residual maturity would considerably hurt the short term financing of the economy, in particular the issue of commercial paper which is usually 90 days or longer at issuance. This would require corporations to reduce their financing horizon to 60 or 30 days.

Option 8: Require MMFs to hole a certain amount of liquid assets and restrict the amount of illiquid assets

QUESTION 21
What are the main benefits and drawbacks of imposing global liquidity restrictions? Should there be restrictions regarding (daily/weekly) liquid assets as well as regarding illiquid assets? Are global definitions of (daily, weekly) liquid and illiquid assets practical? Are there other conditions to consider (e.g. regarding the concentration of assets)?

We agree that MMFs should hold a certain percentage of their assets in cash or securities accessible very quickly, to be able to meet redemptions without incurring losses that could affect the remaining shareholders. Against this background, the introduction of mandatory portfolio liquidity requirements, i.e. minimum holdings of assets held in assets that would be accessible within one day and within one week, could be envisaged. Thus if IOSCO considers it absolutely necessary to implement further options, we would understand that it recommend to impose minimum liquidity requirements on MMFs.

Still, we also acknowledge some challenges/drawbacks of imposing minimum liquidity requirements:

- Minimum liquidity requirements would force MMFs to shorten their investments or buy a higher percentage of government securities at the expense of banking or corporate commercial papers. This would limit the access to money markets for a lot of issuers and, in the end, reduce the MMF industry size.

- Regulators would have to address how to define "liquid" assets.

- It should also be clear that the regulatory requirements would only apply when a security is purchased. A temporary difference should be acceptable if the liquidity position is used to meet a redemption that causes the fund liquid assets to fall below the liquidity ratios.there should not be any (global) liquidity restrictions for liquid or illiquid assets.

- The usefulness of minimum liquidity requirements should not be over-estimated as the liquidity of short-term debt securities may change strongly over short periods of time. From this perspective, imposing strong requirements regarding liquidity risk management might be a superior tool to manage liquidity.

Option 9: Require MMFs to establish sound policies and procedures to "know their shareholders" and better anticipate cash outflows

QUESTION 22

To what extent are managers able to "know their customers" and anticipate redemptions? Are there practical obstacles for managers to "know their customers" (e.g., in the case of platforms, omnibus accounts) and how could they be addressed? What are the main features of the funds' investor base to take into consideration from a liquidity risk management point of view? Should conditions, e.g., regarding the concentration of the investor base be considered? Would this requirement allow fund managers to better understand and manage the risks to which the fund is exposed?

In general, we consider that MMFs should have in place an internal system to be able to meet reasonably foreseeable liquidity demand of their clients, taking into account client concentration and client segments, industry sectors and instruments, and market liquidity positions. However, it should be noted that even when the intentions of end investors are known, they might change during a crisis, with many investors potentially seeking to redeem at the same time. As noted in our response to Question 11, we would argue that liquidity in the market place is the key determining factor.

If IOSCO would nevertheless propose procedures for MMFs to know their shareholders, it would be important to take into account the following points:

- Any reform ought not to take the form of formal limits *per se*, but rather of an obligation on MMFs to know their investor base in order to manage concentration risk.

- Many fund managers would be unable to have a breakdown of their customer base due to the complexity of the different distribution systems and to the local regulation that protect the identity of clients.

- We would support sound procedures to manage liquidity risk by monitoring redemptions and subscriptions very closely but not a mandatory requirement to maintain an individual shareholder register at the fund level.

Option 10: Impose a liquidity fee based on certain triggers

QUESTION 23

Would such a liquidity fee generate a pre-emptive run? If so, when and are there ways that pre-emptive run risk could be reduced? How would shareholders react to the liquidity fee? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm? Would MMF board directors be able to impose a liquidity restriction despite potential unpopularity with investors and competitive disadvantage imposed on the fund? At what level such a liquidity trigger should be set?

The introduction of a liquidity fee for VNAV MMFs is not justified, as these funds' NAV already fluctuate with market price.

As far was CNAV MMFs are concerned, these funds are able to maintain both their stable price and provide liquidity in normal market conditions, so liquidity fees should only be introduced in principle during distressed market conditions to ask investors to pay for the cost of liquidity. We believe that the boards of CNAV funds should be able to impose a liquidity fee as part of their fiduciary obligation to ensure the fair treatment of their investors.

Option 10: Impose a minimum balance requirement on MMFs

QUESTION 24

How would shareholders react to a minimum balance requirement? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm?

We agree that this option would impose a cost to investors without creating a mechanism that could stop risk-averse investors from redeeming in stressed market conditions. This would lead to a lose lose situation:

- Minimum balance requirement would cause shareholders to transfer their investments to alternative investment products

- There would be little benefit to expect from this tool in stressed market conditions

We also consider that this requirement would be complex to manage operationally and difficult to explain to investors.

Option 11: Allow MMFs to value their assets at bid price

QUESTION 25

What are the benefits of using bid price for valuing the funds? Are there other options (such as anti-dilution levy) which could be explored to reduce shareholders' incentive to redeem?

We agree with the proposal to allow MMFs to value their assets at bid price to ensure that each investor gets the price at which the securities last traded hands.

Option 12: Redemptions in-kind

QUESTION 26

What are the benefits and drawbacks of allowing redemptions-in-kind? Are there practical impediments to implementing this option (e.g. some portfolio securities cannot easily be divided)?

Creating a requirement to distribute large redemptions in-kind does create certain benefits, especially by forcing redeeming shareholders to bear their own liquidity risks. On the other hand, there are various drawbacks of creating a requirement to distribute large redemption-in-kind as highlighted in the Report.

Additionally, due to valuation, operational, and jurisdictional issues we do not see how redemptions-in-kind could grant an equal treatment among all shareholders, including all redeeming and remaining shareholders of the fund alike.

We would also like to highlight the following two drawbacks:

- Difficulty to divide fund asset into very small positions. Small pieces cannot be traded and investors would be reluctant to receive unsellable instrument.

- In case of low liquidity, the valuation of assets could be complicated; the redemption conditions would therefore be difficult to determine and very easily opposed by investors.

- If instead of receiving cash, redeeming investors would receive securities, they would seek to sell them in order to receive cash. This will lead to a decline in the market price of these securities as described above. As such while redemption in-kind is a (inefficient) way to internalize transaction costs, it is not a solution to prevent market prices from falling. Redemption in-kind is inefficient not only because of the lot size problem but also because small investors typically get even less favourable bid-ask spreads (due to small transaction sizes) compared to fund managers when selling. In addition, transactions in kind are also an operative hassle for the fund administrator and the broker settling the securities and hence will not come for free.

Against this background, and considering that it is unclear that redemptions-in-kind would reduce the risk of a run to redeem shares, we consider that the benefits of generalizing redemptions-in-kind mechanisms would be small compared to the potential benefits of such measures.

Option 13: Gates

QUESTION 27
What are the benefits and drawbacks of requiring gates in some circumstances? Which situations should trigger gates to be imposed to redeeming investors? Would it be enough to permit gates in some jurisdictions? Would there be a risk of regulatory arbitrage?

In some countries in Europe, funds may utilize gates as a liquidity risk management tool, with the understanding that the trigger event for gates can be clearly determined by the redemption volume.

This said, as suggested by the IOSCO Report, this is a last resort mechanism that be used with caution given its potential negative impact on the overall liquidity in the system as well on the perception that MMFs should be able to offer daily liquidity.

Option 14: Private emergency liquidity facility

QUESTION 28
Do you agree with the suggestion that the establishment of a private liquidity facility faces challenges that make the option unworkable or do you see ways to circumvent these challenges?

We agree with the Report's description of the potential benefits and operational challenges associated with the policy option. In particular, we consider that this option would only make sense if the facility would have sufficient capacity during a crisis, and we agree that sufficient capacity likely would only be possible through discount window access.

It is hard for us to imagine that the central banks would accept providing this access, without requesting the transformation of MMFs into special purpose banks. Given that the economics of the MMF industry do not permit conversion into SPBs, we don't consider that the establishment of a private liquidity facility would be workable.

Option 15: Remove reference to ratings from MMF regulation

QUESTION 29

What are the main benefits and drawbacks of the provisions included in current regimes referring to external CRA ratings? Are there alternatives to credit ratings that reasonably can be substituted?

We fully support the recent European Commission's proposals that aim at reducing the risks of over-reliance of fund managers on credit ratings and introduce a requirement for the managers not to rely solely or mechanistically on external credit ratings for assessing the creditworthiness of a fund's assets.[16] External credit ratings may be used as one factor among others in this process but should not prevail.

In this context, we strongly believe that the use of credit rating agencies to determine whether or not a MMF may invest in a money market instrument should also be reconsidered as the significance of ratings of credit rating agencies in CESR's guidelines on MMF is overstated. What matters is that management companies employ a risk-management process which enables them to monitor and assess the credit quality of the money market instruments they invest in, within a framework that should not be limited a priori by the rating of credit rating agencies. In other words, the responsibility of the assessment of the quality of a money market instrument should lie with the management company. In carrying out its due diligence, the management company should be able to overwrite the credit rating of an instrument if it can conclude that the instrument is of high quality, taken into account a range of factors such as the liquidity profile and the nature of the asset class represented by the instrument

Against this background, we have proposed that ESMA deletes paragraph 4 in Box 2 and paragraph 1 in Box 3 of the CESR´s guidelines which stipulates that a money market instrument is not of high quality if it has not been awarded one of the two highest available short-term credit ratings by each recognized credit rating agency that has rated the instrument.

This decision would also allow addressing another major problem raised by the guidelines and the ESMA Q&A in relation to the requirement to a management company managing MMFs must check the short-term credit ratings awarded by each recognized rating agency that has rated an instrument to determine if the instrument is of high quality. As there are already 28 credit rating agencies registered with ESMA – a number that is likely to increase in the future - we strongly believe that this is unworkable for compliance and economic reasons.

[16] See proposal for a Directive of the European Parliament and of the council amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to UCITS and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of the excessive reliance on credit ratings and proposal for a regulation amending Regulation (EC) No 1060/2009 on credit rating agencies.

Option 16: Encourage greater differentiation of ratings in the MMF population

QUESTION 30
What are the benefits of MMF ratings? Should a greater differentiation between MMF ratings be encouraged? To what extent are investors restricted in their investments to 'Triple-A' rated funds? What alternatives could there be (e.g. from other third parties)? What initiatives could be proposed to educate investors about MMF ratings?

Please refer to our response to Question 8.

QUESTION 31
In addition to the options explored in the four sections above, do you see other areas to consider which could contribute to reinforcing the robustness of MMFs?

The MMF prospectus and marketing materials should clearly highlight that the objective of capital preservation is not a capital guarantee. MMFs are investment products like any other investment funds. Investors should therefore be aware of the risk that funds may not be able to provide liquidity in a distressed market.

We recommend that regulators should require MMFs to disclose their portfolio holdings in a standardised format. Regular, standardised disclosure would enable investors to assess risk, and exercise discipline over relatively risky MMFs.

QUESTION 32
Do differences between jurisdictions require different policy approaches or would a global solution be preferable, notably to ensure a global level playing field?

The regulation of investment funds differs significantly between the different regions of the globe. By way of illustration, it is well recognized that the UCITS Directive and the Investment Company Act are quite different pieces of legislations. Furthermore, there are important regional and national specificities that explain the different regulations and features of MMFs across the world as well as the different services that they bring to investors.

As long as there is no "world passport" for MMFs, we don't think it realistic and necessary to convergence towards identical regulation of MMFs across the globe. However, a certain minimum level of harmonization may be desirable. Indeed, if underlying rules are different for funds sold in a market, then it would be difficult to explain the difference in regulation by regional specificities. In addition, the implementation of the IOSCO principles should be monitored carefully.