

ICI Global Response to the European Commission’s Targeted Consultation on the Functioning of the Money Market Fund Regulation

[ICI Global](#)¹ appreciates the opportunity to provide feedback to the European Commission on its targeted consultation on the functioning of the Money Market Fund Regulation (MMFR). ICI Global represents global regulated investment fund managers and the end-investors they serve, and our members manage approximately €5.4 trillion in UCITS.²

The Investment Company Institute (ICI) and ICI Global have collected substantial data and analytical resources on regulated funds, including money market funds, and this has helped us engage with national and international policymakers during the market turmoil in March 2020, following the 2007-2009 financial crisis, and long before. To that end, ICI issued a *Report of the Covid-19 Market Impact Working Group (Report)*, which includes a chapter on UCITS and European ETFs. The Report is intended to provide a sound, data-based foundation for regulatory discussions and is complemented by an ICI Viewpoints series of assessments. They are available at <https://www.ici.org/covid19>.

Our data regarding the experiences of UCITS money market funds during March 2020 may be helpful to the Commission as it considers potential reforms to the MMFR.

At the end of February 2020, just before the COVID-19 crisis hit markets with full force, net assets in UCITS money market funds domiciled in the European Union totaled €1.3 trillion—with 44 percent domiciled in Ireland, 27 percent in France, 26 percent in Luxembourg, and the remainder in the United Kingdom and other EU countries.³ UCITS money market funds are used by both institutional and retail investors to manage liquidity. Based on data from Morningstar, 45 percent of total net assets in UCITS money market funds were in institutional share classes; 55 percent were in retail share classes.⁴

European investors sought to protect or build liquidity in March 2020, including increased purchases of public debt CNAV funds. Figure 1 shows the net assets of UCITS money market funds that are domiciled in

¹ [ICI Global](#) carries out the international work of the [Investment Company Institute](#), the leading association representing regulated investment funds. With total assets of \$41.3 trillion, ICI’s membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. ICI’s mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, Hong Kong, and Washington, DC.

² ICI Global member assets based on data from Morningstar Direct.

³ Information derived from ICI calculations of data from Morningstar Direct. UCITS established and authorized in the United Kingdom are included because they qualified as UCITS until at least December 31, 2020.

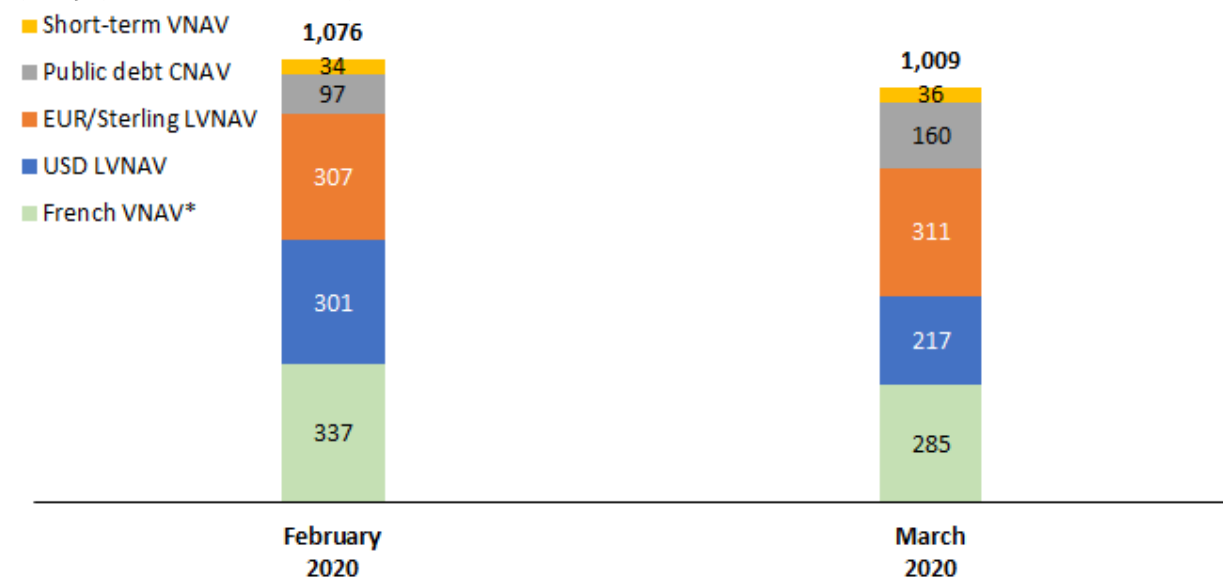
⁴ Data are based on Morningstar’s share class designation rather than the source of the underlying assets. For example, some assets in institutional share classes may be from large accounts made up of the small accounts from a large number of individual retail investors. Information derived from ICI calculations of data from Morningstar Direct.

Ireland, Luxembourg, the United Kingdom, and France, which total €1,076 billion, or 84 percent of the EU market, at the end of February 2020.⁵ By the end of March, total net assets fell to €1,009 billion as outflows from LVNAV money market funds denominated in US dollars and French VNAV funds—which are predominantly denominated in euros and sold to French residents⁶—were only partly offset by inflows to public debt CNAV funds. In March, LVNAV funds denominated in US dollars had outflows of €84 billion or 28 percent of their February month-end assets, and French VNAV funds had outflows of €53 billion or 16 percent of their February assets (Figure 1). In contrast, public debt CNAV funds experienced inflows of €63 billion, or 65 percent of their February assets.

FIGURE 1

UCITS Money Market Fund Assets Domiciled in Ireland, Luxembourg, the United Kingdom, and France

By category, billions of euros, February 29, 2020, and March 31, 2020



* Data for French VNAV funds include both standard and short-term VNAV funds.

Note: Data from iMoneyNet include UCITS money market funds that are both domiciled in Ireland, Luxembourg, and the United Kingdom and registered with the Institutional Money Market Funds Association (IMMFA). Data from Morningstar Direct include UCITS money market funds domiciled in France.

Source: ICI calculations of iMoneyNet and Morningstar Direct data

During the first week of March 2020, UCITS money market funds domiciled in Ireland, Luxembourg, the United Kingdom, and France saw outflows of €18 billion, or 1.7 percent of their February month-end assets, which primarily reflected outflows from sterling- and euro-denominated LVNAV funds (Figure 2). During the second week of March, UCITS money market funds experienced inflows of €20 billion, or 1.9 percent of previous month-end assets, most of which was attributable to sterling and euro LVNAV money market funds,

⁵ Data for net assets of UCITS money market funds domiciled in Ireland, Luxembourg, and the United Kingdom only include funds that are registered with IMMFA.

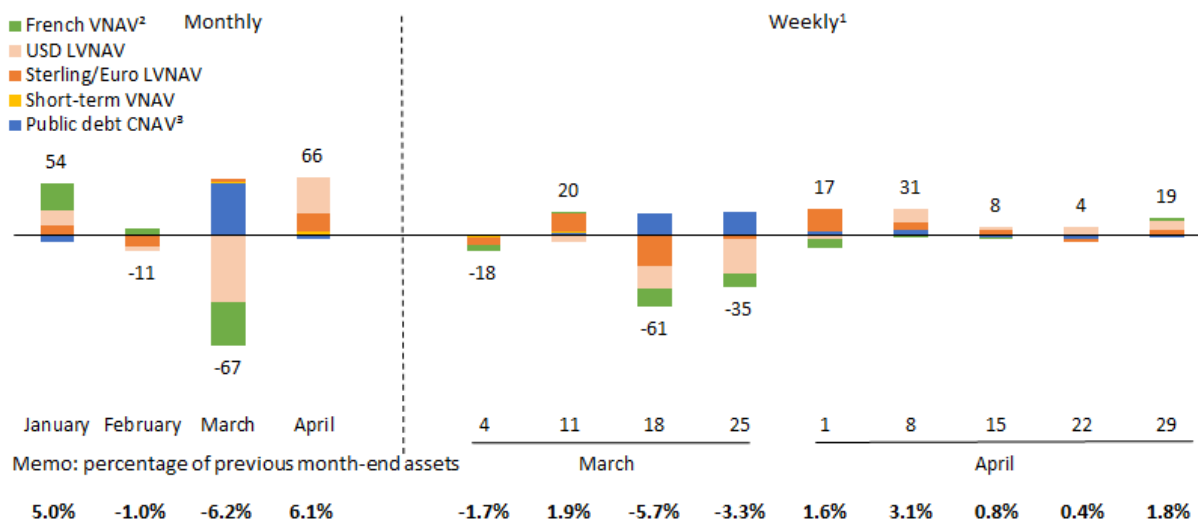
⁶ See “Money Market Funds During the March–April Episode,” Thematic Note, The Board of the International Organization of Securities Commission, November 2020, available at www.iosco.org/library/pubdocs/pdf/IOSCOPD666.pdf.

which had inflows of €23 billion, or 6.9 percent of their February assets. The significant inflows into sterling and euro LVNAV funds were driven by gains from derivatives margins.⁷

FIGURE 2

Investors Sought Liquidity in Public Debt CNAV, or Government, Money Funds

Change in money fund assets domiciled in Luxembourg, Ireland, the United Kingdom, and France, billions of euros, January–April 2020



¹ Weekly data for French VNAV funds only include those with available estimated daily net new cash flow from Morningstar.

² French VNAV funds include both standard and short-term VNAV funds.

³ The vast majority of public debt CNAV money market funds are denominated in US dollars.

Source: ICI calculations of iMoneyNet and Morningstar Direct data

In the third and fourth weeks of March, outflows from UCITS money market funds totaled €96 billion, or 9.1 percent of their February assets (Figure 2). For sterling and euro LVNAV funds, the gains from derivatives in the prior week reversed, which resulted in outflows of €41 billion. At the same time, LVNAV funds denominated in US dollars and French VNAV funds had outflows of €70 billion and €39 billion, respectively. In contrast, public debt CNAV funds had inflows of €54 billion during this period. Outflows from LVNAV funds denominated in US dollars likely were related to inflows into public debt CNAV funds, which are primarily denominated in US dollars.

In the United States, net assets shifted from prime money market funds, which have floating NAVs and the ability to invest in short-term high-quality corporate securities, to government money market funds, which have a constant NAV and primarily hold US Treasury securities.⁸ In the same way, some investors in dollar-denominated UCITS money market funds likely shifted from LVNAV funds, which have exposure to short-

⁷ See “Lessons from COVID-19: The Experience of European MMFs in Short-Term Markets,” BlackRock, July 2020.

⁸ For more information, see “Experiences of US Money Market Funds During the COVID-19 Crisis,” Report of the COVID-19 Market Impact Working Group (Washington, DC: Investment Company Institute, October 2020), available at www.ici.org/pdf/20_rpt_covid3.pdf (2020 ICI Money Market Fund Report).

term corporate credits into public debt CNAV funds. As financial markets began stabilizing towards the end of March and into April 2020 following monetary and fiscal interventions, UCITS money market funds, in aggregate, experienced inflows in each week.

Response to question 2.a) – To what extent has MMFR made MMFs more resilient during March 2020 and compared to 2007 (i.e., considering equivalents to MMFs at that time)?

EU money market funds are open-ended investment vehicles that typically are authorized as UCITS and, accordingly, generally are subject to the UCITS provisions. In June 2017, the European Union adopted the MMFR, which applies to all money market funds established, managed, or marketed in the European Union, following an agreement by G20 countries to reform the money market fund industry after the 2007–2009 financial crisis. For the first time, the MMFR established a regulatory classification of both short-term and standard money market fund structures, and introduced rules on portfolio diversification and asset valuation. Additionally, the MMFR increased the requirements for credit quality, imposed stricter liquidity and stress testing conditions, prohibited funds from receiving any external financial support, implemented reporting requirements, and imposed new obligations on money market fund managers.

It is difficult to assess the impact of the MMFR, as the events of 2007 and March 2020 were very different. Unlike 2007, the COVID-19 health crisis that induced market volatility began outside the financial system, but generated extreme uncertainty and led to a massive shock to the real economy that strained global financial markets. As the crisis unfolded, market participants reduced their risk exposure and sought cash and liquidity. This global phenomenon was exhibited by all market participants, not just money market fund investors.

Response to question 6 – What regulatory developments at international level should be taken into account in the MMFR and why?

The US Securities and Exchange Commission (SEC) recently proposed amendments to certain rules that govern money market funds under the Investment Company Act of 1940.⁹ As US money market funds and UCITS money market funds share certain characteristics and experiences, the reforms proposed by the SEC, as well as stakeholder feedback on those proposed reforms, could help inform EU policymakers considerations.

On April 11, 2022, the Investment Company submitted a response to the SEC on its money market fund reforms.¹⁰ We share below some of the main messages from our response to the SEC.

Given the important role of money market funds in the financial system, the SEC and other policymakers should evaluate reform options by comparing their impact on the ability of money market funds to fulfill this role (*i.e.*, preservation of their key characteristics) *against* the likely

⁹ See Money Market Fund Reforms, SEC Release No. IC-34441 (December 15, 2021) (Release), available at <https://www.sec.gov/rules/proposed/2021/ic-34441.pdf>.

¹⁰ See Letter from Eric J. Pan to Vanessa Countryman, dated April 11, 2022, Re: Money Market Fund Reforms, available at <https://www.ici.org/system/files/2022-04/34107a.pdf> (ICI MMF Proposal Letter).

practical impact any money market fund reforms will have on making the overall financial system more resilient. Any new reforms for money market funds should be measured and appropriately calibrated, taking into account data, the costs and benefits these funds provide to investors, the economy, and the short-term funding markets.

ICI has carefully collected data and analyzed the events of March 2020 and found that (i) money market funds were neither the first nor the largest targets of the government intervention programs that helped a broad range of financial market participants during the COVID-19 crisis and (ii) money market funds did not cause the stress in the short-term funding markets in March 2020.¹¹ Indeed, the COVID-19 crisis revealed reluctance or inability by certain banks to act as dealers in such circumstances and different expectations between investors and the role of dealers in providing liquidity in these markets. To this end, we agree with commentators that have recommended measures that would adjust bank regulations to enable banks and their dealers to expand their balance sheets to provide additional market liquidity during stress without materially reducing the overall resilience of those firms.¹²

It was the structure of that market during times of stress—not the action of money market funds—that was at the heart of the ensuing challenges of March 2020. To this end, money market fund reforms by themselves will not address these challenges. We therefore urge policymakers, working together with the industry, to focus on measures that would improve the functioning of those markets.¹³

Our comments and recommendations to the SEC’s proposal include the following:

- *Support amendments to remove liquidity fee and redemption gate provisions.* The regulatory tie between liquidity thresholds and fee and gate thresholds in the United States made money market

¹¹ For a detailed discussion of ICI’s research of the March 2020 events and the role of money market funds, *see* the 2020 ICI Money Market Fund Report.

¹² *See e.g., Task Force on Financial Stability*, Brookings Institution (June 2021), available at www.brookings.edu/wp-content/uploads/2021/06/financial-stability_report.pdf at 11-12. Specifically, the report recommends permanently excluding reserves from the supplementary leverage requirement (SLR) or considering a countercyclical component of the SLR to be released in stress. *Id.* at 40-42.

¹³ For a discussion of measures to improve the Treasury market, *see e.g., Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report*, staff findings from the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Securities and Exchange Commission, and the Commodity Futures Trading Commission (November 8, 2021), available at <https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf>; *Task Force on Financial Stability*, Brookings Institution (June 2021), available at www.brookings.edu/wp-content/uploads/2021/06/financial-stability_report.pdf at 43-45; Group of Thirty Working Group on Treasury Market Liquidity, *U.S. Treasury Markets: Steps Toward Increased Resilience*, Group of Thirty (2021), available at group30.org/publications/detail/4950, at 9-14. For an example of a similar government and industry initiative, *see* the Task Force on Tri-Party Repo Infrastructure (“Task Force”) at www.newyorkfed.org/tripartyrepo/index.html. The Task Force was formed in September 2009 to address potential systemic risk concerns associated with the infrastructure supporting the triparty repo market. The Task Force membership included representatives from multiple types of market participants that participate in the tri-party

funds more susceptible to financial stress in March 2020 and could likely do so again in future periods of stress. ICI data indicates, and our fund members report, that the possibility of a gate especially caused investors in March 2020 to redeem heavily when a fund started approaching 30 percent weekly liquid assets—a level that only had significance because of the bright line drawn by the regulatory tie rather than actual difficulties in the fund’s ability to meet redemptions.

- *Oppose proposed swing pricing requirement.* Swing pricing fails to reflect how money market funds are managed, would not advance policymakers’ goals of enhancing money market fund resiliency and by extension financial stability, would likely strip money market funds of features that are key to investors (such as multiple daily net asset value (NAV) strikes per day and same-day settlement), and would impose excessive costs to overcome unnecessary and complex structural challenges. Indeed, swing pricing would fundamentally alter the product and its appeal to investors, cause fund sponsors to stop offering the product, and is neither supported by the data nor necessary. Rather, the evidence indicates—and the SEC has admitted—that tying the liquidity thresholds with the option of gates and the possibility of a two percent liquidity fee was a mistake that contributed very significantly, perhaps predominantly, to the stresses certain money market funds experienced in March 2020.¹⁴
- *Support amendments to portfolio liquidity requirements.* As economic analysis shows, a modest increase in the daily and weekly liquid asset requirements—consistent with what most money market funds already maintain as a matter of conservative liquidity risk management—and importantly in combination with the amendments to remove the current liquidity fee and redemption gate provisions—would bolster the resiliency of money market funds sufficiently to avoid another March 2020 like event. To this end, we recommend increasing daily and weekly liquid asset requirements to 20 percent and 40 percent, respectively.¹⁵

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

Any consideration of proposals on the use of liquidity management tools by money market funds needs to reflect the unique characteristics of money market funds and refrain from intentionally or inadvertently stripping money market funds of the features that are key to investors. Many liquidity management tools—including some contemplated under the AIFMD review—are not well suited to the particular design of money market funds. We encourage the European Commission to treat EU MMFs differently than other UCITS, as the LMTs that are relevant for non-MMF UCITS may be disruptive to MMFs.

repo market, as well as relevant industry associations, including ICI. US Federal Reserve and SEC staff participated in meetings of the Task Force as observers and technical advisors.

¹⁴ ICI MMF Proposal Letter at Section 1.2

¹⁵ ICI MMF Proposal Letter at Section 1.3.

As we stated in our responses to the Financial Stability Board¹⁶ and the SEC,¹⁷ swing pricing, in particular, is not necessary for money market funds because they already have the ability to impose anti-dilution levies/liquidity fees. Applying swing pricing to money market funds also would likely strip them of key characteristics, impose excess costs to overcome unnecessary and complex structural challenges, and cause confusion among investors during periods of stress.

Response to question 22 – Can you explain the direct and indirect impacts (on the type of MMF and on the broader markets) of the central banks’ intervention since March 2020 up to now? Please specify the central bank your answer refers to (ECB, BoE, FED).

As policymakers consider potential reforms to the MMFR, it is critical that they fully understand and consider the direct and indirect impact of central bank interventions on money market funds and the markets more broadly.

Although the overall objectives of the ECB and BoE programs and the Federal Reserve facilities were the same—to restore liquidity and support the flow of credit to the economy—there were some differences in the mechanisms used to achieve those goals. First, a number of Federal Reserve facilities helped facilitate secondary trading by lending to banks against “eligible collateral,” which in turn allowed banks to intermediate trades by purchasing those assets from investors who had difficulty finding buyers during the stressed period. In contrast, the measures implemented by the ECB and BoE focused more directly on banks’ balance sheets, with the central banks taking assets off the books of, and providing cash to, banks.¹⁸ Bank lending remains a very significant source of funding in Europe,¹⁹ and maintaining funding to banks helps them continue to lend to the real economy.

¹⁶ See Letter from Eric J. Pan to Financial Stability Board, dated August 13, 2021, available at <https://www.ici.org/system/files/2021-08/21ltrfbsbmmfs.pdf>.

¹⁷ See ICI MMF Proposal Letter.

¹⁸ In mid-September, the Governing Council of the ECB announced that it concurred with ECB Banking Supervision that there are “exceptional circumstances” allowing the temporary exclusion of certain central bank exposures from the leverage ratio. The Governing Council said in an opinion: “The situation brought about by the coronavirus (COVID-19) pandemic has affected all euro area economies in an unprecedented and profound way. This situation has resulted in an ongoing need for a high degree of monetary policy accommodation, which in turn requires the undeterred functioning of the bank-based transmission channel of monetary policy. In the view of the Governing Council, therefore, the condition of exceptional circumstances warranting the temporary exclusion of certain exposures to central banks from the calculation of banks’ total exposure measures is met for the euro area as a whole.” See www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200917~f3f03398d2.en.html.

¹⁹ As of March 31, 2020, euro area nonfinancial businesses received 65 percent of their financing through bank loans and 35 percent through equity and debt capital markets. Comparatively, for the United States, nonfinancial businesses received 12 percent of their financing through bank loans and 88 percent through equity and debt capital markets (data are derived from the Federal Reserve Board and Eurostat).

Second, the ECB and BoE programs provided little support for UCITS money market funds.²⁰ For example, the Pandemic Emergency Purchase Program (PEPP)²¹ was limited to purchasing euro-denominated assets, thus precluding any support for the 30 percent of assets in UCITS money market funds that are denominated in US dollars. In addition, even among euro-denominated assets, the PEPP was not authorized to purchase commercial paper issued by financial institutions or bank certificates of deposit, instruments that are widely held by UCITS money market funds.²²

The timing of the sale of offshore USD money market fund holdings of commercial paper is also relevant to an analysis of the impact of central bank interventions. Based on iMoneyNet data, USD money market funds registered outside of the United States held an estimated \$135 billion in USD commercial paper, representing 12 percent of the \$1.1 trillion in outstanding USD commercial paper at the end of February 2020. Altogether, US prime money market funds and offshore USD money market funds held \$459 billion in USD commercial paper, representing 40 percent of outstanding USD commercial paper at the end of February 2020. Entities that are not money market funds held the remainder (60 percent).

Similar to US prime money market funds, offshore USD money market funds modestly reduced their commercial paper holdings before the US Federal Reserve's Money Market Mutual Fund Liquidity Facility (MMLF) announcement. According to iMoneyNet, commercial paper holdings of USD offshore money market funds fell by \$9.7 billion from March 6 to March 13, 2020, and by an additional \$7.8 billion from March 13 to March 20, 2020. It wasn't until after the Federal Reserve calmed and unlocked the short-term funding markets through the MMLF that USD offshore money market funds substantially reduced their commercial paper holdings—a reduction of \$27 billion from March 20 to March 27, 2020.

Taken together, these data across three jurisdictions show that money market fund sales of commercial paper ahead of the central bank programs were not disproportionately large, especially when viewed against the backdrop of the sharp selloff in broader financial markets. Further, we believe that, but for the linkage between liquidity and fees/gates, money market funds would not have needed to use these facilities.

²⁰ The ECB and BoE efforts likely did have an indirect positive effect on the money markets.

²¹ Launched by the ECB on March 18, 2020, the Pandemic Emergency Purchase Programme (PEPP) was a new, temporary, and flexible program to purchase private and public sector securities. Information about the PEPP is available at www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html.

²² For example, low volatility NAV money market funds consist of between 70 percent and 80 percent of financial paper. *See* "IMMFA Position Paper on Money Market Funds," Institutional Money Market Funds Association, July 2020, page 5, available at www.immfa.org/assets/files/publications/IMMFA%20Position%20Paper%2015%20July%202020.pdf. Although industry participants brought these issues to the attention of the ECB, no changes were made to address these concerns.