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Public comment on IOSCO's consultation report on "Money Market Fund Systemic Risk Analysis and Reform Options"

AXA Investment Managers is a multi-expert asset management company within the global AXA Group, a world leader in financial protection. It is headquartered in Paris and operates in 22 countries. AXA IM manages over EUR 500 bn of assets in fixed income, equities and alternative asset classes on behalf of group insurance companies, institutional and retail investors.

AXA IM has also contributed to the response of the French asset management association, AFG.

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 put in place, with an objective to avoid circumvention and regulatory arbitrage?

We agree that MMFs have an objective of daily liquidity and preservation of capital. We also strongly believe that the objective of delivering a performance in line with money market rates is part of the definition of money market funds.

MMFs are investment funds and as such, there is a reference to a performance objective (delivering a performance in line with money markets). Performance is as important as preservation of capital and liquidity for VNAV investors in Europe. This can explain why VNAV investors have a higher tolerance for volatility and NAV declines than CNAV investors. Performance objective is a "normal" attribute of an investment fund and the associated investment risk is understood by VNAV shareholders. This understanding can be highlighted by the in-depth due diligence made by investors (very detailed RFP questionnaires, regular monitoring of funds risk profile, holdings, performance…) showing they are conscious of the underlying risks of a MMF and the associated volatility in stressed market periods.

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?

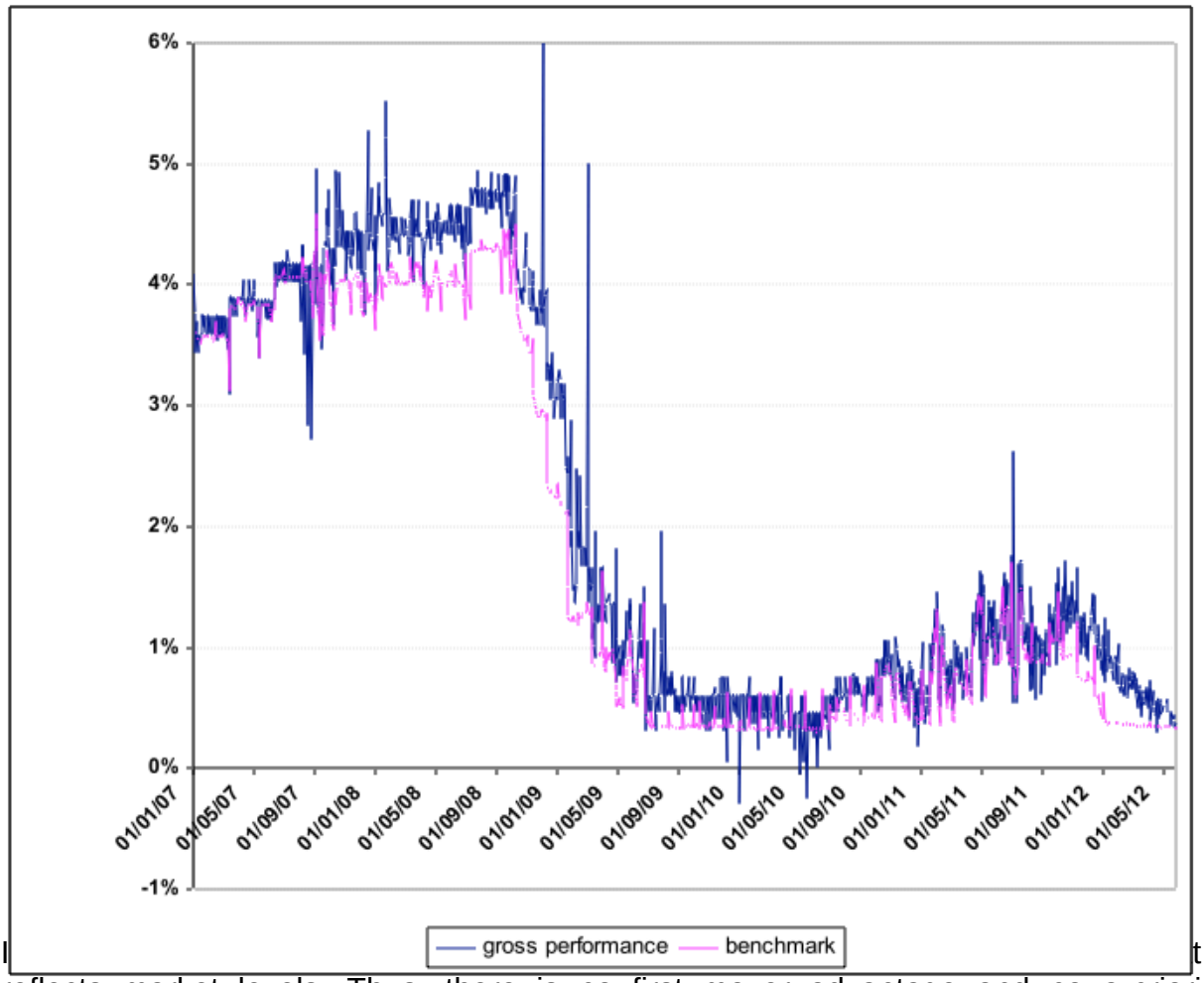
First, we want to make it clear that MMFs did not cause the crisis and that MMF suffered, as many other funds, from the dysfunctioning of the financial system as a whole.

We think that a distinction should be made between CNAV and VNAV funds.

CNAV are seen by investors as deposit like products almost capital guaranteed. Indeed, management techniques tend to favour the idea of capital preservation and the absence of volatility : constant NAV, linear valuation, AAA rating, quasi implicit sponsor support. All this leads to a misperception of the underlying risks of portfolios and strong expectations from clients (we could qualify this as a fool's game). All this artificial mechanism is based on investor's confidence in the ability of the fund to deliver a very stable return over time. But when things turn bad (tail risk, global financial crisis, credit stress…) the equation can't work and it creates a "first mover advantage" reaction that can accentuate the likelihood of a run.

Runs on VNAVs funds can happen, but reasons are not inherent to the management structure of portfolios. The marked to market valuations of the underlyings in the portfolio avoid any "arbitrage behaviour" from investors. There is no such thing compared to "breaking the buck" effect, no "cliff effect" and collective type of threshold induced by "breaking the buck". In VNAV, subscription / redemptions are more linked to the appreciation by investors of the risk profile of the funds and macro economic anticipations. Flows are less systemic and more specific to each fund risk. Also, the concept of "first mover advantage" is not coherent with our major principle and regulation of shareholders' equality.

Example of VNAV fund performance: annualised daily gross performance of AXA Court Terme and its benchmark (Eonia OIS). Marked to market valuations can induce some volatility, and on some occasions NAV may decline).



I t reflects market levels. Thus, there is no first mover advantage and no a-priori systemic risk linked to these funds. It is clearly stated in the prospectus that risks linked to underlyings' evolution (ex: credit risk) are supported by investors.

A clear distinction should be made between runs on one side and large outflows that can occur on MMFs on the other side. The latter are generally seen as "business as usual" by asset managers (due for example to clients' cyclical needs) and that can be perfectly managed as portfolios are designed to cope with these large potential in/outflows.

We also think that the assertion (on page 6 last paragraph) that institutional investors would exhibit extreme risk aversion leading them to pre-emptively redeem at the first sight of heightened risk is incorrect. This cannot be said as a general principle for all types of institutional investors no matter where they are located.

An adequate level of risk in portfolios based on in depth credit analysis, internal models from asset managers in order to limit issuer concentration, assess market conditions and a better consistency on liquidity management could help prevent runs.

French funds are generally not rated, thus there is no potential cliff effect on this side. Investors do their own due diligence on firms and funds.

In addition, French MMFs cannot be used as a payment means by the investor; there is no cheque writing on MMFs units.

We thus firmly think that French MMFs do not bear by nature fragilities that would make them prone to the run risk.

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. We believe that in general French MMFs do not create risks to short-term funding markets and their participants as they apply strict internal risk guidelines (diversification, maturities, credit risk, intensive in-depth credit analysis, liquidity …). French MMFs are regulated since 1987 (COB) and have to comply with strict investment guidelines (UCITS, ESMA). It is not MMFs themselves that create risks as outflows and runs comes from shareholders. During 2007 / 2008, redemptions from MMFs were due to fears about banks and the functioning of financial markets, not from fears about MMFs as an investment vehicle. When MMFs suffer from outflows due to distrust about banks or sovereign issuers, we can assume that funding access for these issuers will be impaired, independently of the existence or not of MMFs.

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 is voluntary and may concern any type of fund. However, this is not to be confused with an implicit guarantee. Explicitly, there is no expectation of support that is factored in by the fund producer and any potential support comes as an exception.

In France, the vast majority of sponsors are of bank and insurance types. There are also some independent actors.

The potential systemic risk may only come from an implicit support / guarantee that may come with a CNAV structure as the risk of breaking the buck and losing the AAA rating can trigger massive outflows / runs.

Sponsor support increases confusion from investors with bank deposits. We believe that French VNAVs have demonstrated their ability to withstand a certain level of volatility and even to face negative NAVs without generating significant outflows. Investors are used to seeing some volatility in VNAV funds and are aware that NAVs may drop.

Question 5: Do you agree with the description of MMF benefits? Are there other benefits of MMFs for investors than those outlined 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?

Yes, we agree.

MMF have a strategic role as they contribute to the efficiency of money markets and to the short-term financing of the economy (ie : banks, corporates and sovereigns). They provide an intermediation service between lenders and borrowers in the short-term debt markets. According to EFAMA, European MMFs represent €1124 Bn as of end September 2011. France is the first MMF European centre with a 32.3% market share (€358 Bn). French MMFs are owned more than 75% by institutional investors and non financial companies. Retail investors account for about 9% and banks for 5%. The retail proportion keeps diminishing over time.

French MMFs hold about 30% of certificates of deposits issued by banks in France, and more than a third of commercial paper and medium term negotiable notes issued by corporates.

They are investment products offering access to credit expertise, risk diversification, liquidity management and secure and efficient operational processes that would be prohibitively expensive to most cash investors outside of the pooled-fund environment. MMFs provide borrowers with access to cash in aggregated amounts, facilitating the management of their short-dated cash needs.

The absence of MMFs would certainly increase the risk of runs on banks as investors would be “forced” to invest in deposits but with much less diversification (only a few counterparties) than with MMFs. In case of market stress, the likelihood of disorderly bank runs would be increased.

Regarding market evolution, there has been a strong (and successful) incentive for retail to reallocate towards bank deposits.

Question 6: Do you agree with the proposed framework comparing money market funds and bank deposits? Are there other aspects to consider?

Yes, we agree. We would like to add that investors benefit from a diversified credit pool with very limited counterparty risk through MMFs whereas they bear full counterparty risk with a deposit.

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 amortized cost accounting by VNAV funds? Has this practice evolved over time?

We do not agree with the argument saying that both CNAVs and VNAVs are prone to the run risk because of the maturity transformation. The maturity / liquidity transformation performed by MMF is very limited and subject to tight guidelines defined by regulators both in the US and Europe. This “liquidity mismatch” is far

smaller and much simpler to assess than that performed by banks. Moreover, asset quality of the MMF is high, and liquidity risk is actively monitored:

- at the asset level : liquidity profile of the portfolio taking into account instruments' maturities ; assessment of the "liquidity level" of each instrument / issuer; minimum liquidity bucket, marked to market valuation with shift to bid price in case of worsening market conditions.
- at the liability level : tracking clients' behaviour to anticipate in/out flows;

The question here is much more linked to the valuation method applied as any significant discrepancy with the real marked to market price tends to increase the probability of runs in cases of higher market stress. The risk of "breaking the buck" creates an important difference between how the two types of structures may be prone to run risk. We would also highlight the fact that when market volatility is increasing, performance of VNAV funds tends to be more volatile and fund managers are strongly incentivised to adjust quickly the risk profile of the portfolios (no artificial volatility absorbing buffer coming from the use of amortized cost).

We would like to recall that as for any other asset management product, French MMF's NAV is subject to the fund's underlyings' behaviour and as such, it fluctuates and it can fall.

As shown by the graph in Question 2, French VNAV MMFs, like any other asset management product, have their own natural variability of the NAV, that can be seen when compared to their benchmark (Eonia) and that is due to the active management of their underlyings. The variability of the NAV corresponds to the "look-through" made possible by a marked to market valuation of the fund's underlyings.

Indeed, it should be reminded that French VNAV MMFs have the same valuation rules as any other asset management fund and the principle is one of marked to market valuation.

There is one exception for less than three months instruments. Funds are authorised – instrument by instrument - to apply amortised cost accounting (only for negotiable debt securities with less than three months residual maturity and having no specific sensitivity to market parameters, not for bonds). This possibility to use amortised cost accounting is linked to the facts that :

- market prices are not available at the very short end of the yield curve for OTC instruments such as CDs, CPs etc…

- the use of 3m amortised cost is not significantly divergent from the marked to market price curve (low spread / interest rate sensitivity, high quality issuers).

The risks for negotiable debt securities with less than three months maturity are very small: the interest rate risk (modified duration) over a three months period is much less than on 397 days (4 times less) and the credit risk (spread duration) is four times smaller.

This less than three months amortised cost accounting is a simplifying valuation model that can be used when there is no particular sensitivity to markets. It should be reminded that this faculty implies no material difference with the market price. We

can therefore say that French VNAVs are as marked to market as possible and do not differ in their valuation policy from other investment funds.

We therefore strongly disagree with underlying assumption that using amortized cost accounting for less than 3 months commercial papers is similar to using amortized cost accounting up to 397 days for the portfolio as a whole.

The use of amortized cost accounting may be considered almost the same only for funds (VNAVs and CNAVs) that :

- invest only in instruments below 3 months and
- are not authorised to amortise the loss incurred by the sell of a holding over several days.

The portion of amortised assets in a French VNAV depends on the proportion of less than 3 months negotiable debt securities versus all the other assets and on the market sensitivities of the holdings. A very short maturity portfolio with very low market sensitivities may have a high proportion of its assets eligible to cost accounting.

The evolution to be noted is that French VNAV asset managers were not in favour of the implementation of the amortized cost accounting up to 397 days that was made possible by the new ESMA MMF guidelines in 2011. So far, no MMF in France can apply cost amortization above 3 months.

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?

Our view related to MMFs AAA ratings is that the great majority, of MMFs are either awarded the AAA or they are not rated. Generally AAA rating looks more like a label.

French institutional clients do not want to rely on an external rating to select a MMF. They generally prefer to perform their own in-depth analysis of portfolios and thorough due diligence / RFI with very detailed questionnaires. This is why French MMFs do not ask to be rated. Nevertheless, we acknowledge that some institutional clients situated in other European countries either have rules linked to AAA ratings or prefer rated funds when they buy cross border MMFs.

Notwithstanding the methodological efforts made by rating agencies, we believe that using asset liability management often proves more dynamic and efficient than relying on ratings that use one-size-fits-all type of methodologies. In addition, the use of external ratings tends to lead to a standardisation of the MMF industry with less and less differences from one fund to another. A problem in one fund tends to happen in a multitude of other AAA funds making any incident even more systemic.

We support regulators' efforts to reduce over-reliance on rating agencies related both to requirements on ratings of instruments in the fund and ratings for the fund itself.

Related to current ratings' reference in "CESR's Guidelines on a common definition of European money market funds", we believe there should be no mandatory reference to CRAs' ratings. Indeed, we believe MMF managers should internally assess the instrument's quality and CRAs' ratings should only be an optional input. We believe the eligibility criteria should not be mechanistically linked to all external ratings given to the instrument, rather the mandate of the fund should specify that best quality instruments are eligible. The quality should be assessed by the asset manager and reference to rating agencies could be done on a discretionary manner.

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?

Sales repurchase agreements, also known as "repos", are one of the most secure money market operations for funds.

We do not think that repos in MMFs present unique issues. In the funds' daily practice, repos are an integral part of MMFs normal investments. They represent about 5% - 15% on average in portfolios, and more in a govies MMF. French MMFs use only very short term callable (24h/48h) repos entered with MMF eligible counterparties. The nature of the collateral is of very high quality (mostly government bonds) and very liquid.

Repos are used in order to manage the liquidity of the portfolio. In practice there is no "re-use", "re-pledge" of the collateral.

In France, from a legal standpoint, the repo financial assets buyer has full property over the assets having been delivered. All transactions are governed by so-called "master agreements" which directly refer to the French Code Monétaire et Financier. This legal feature intends to completely remove the risk of not being able to get the collateral in due time in case of failure of the counterparty.

From an operational risk standpoint, repos in France must be executed with physical delivery of the financial assets through an electronic "cash against delivery" settlement system which removes a risk where cash would be released but financial assets not delivered against it. Physical delivery of the financial assets to a ring-fenced custodian account in the name of the fund is of course a very important feature in terms of risk being adequately addressed.

Collateral is valued on a daily basis and margin calls are operated so as to protect both parties against market value changes of the financial assets. Haircuts are applied to reflect the quality of the collateral and further protect investors.

Repos offer a very useful, flexible and safe financial instrument in MMFs.

There is probably scope for policy recommendations with the aim of strengthening the global regulatory framework with regard to repos' specific features:

- make sure that repos are being executed as part of a well-defined legal framework;

- make sure that repos involve physical delivery of the financial assets into a ring-fenced account in the name of the fund;

- make sure that repos are executed through electronic "cash against delivery" settlement systems;

- implement minimum credit quality requirements for the repo counterparty;

- for the financial assets received: implement minimum credit quality requirements and/or appropriate haircuts and take into account counterparties' credit quality in the determination of margin calls frequency;

- make sure there is little correlation between counterparty and financial assets received.

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?

Yes, the mentioned changes in the environment of MMFs are relevant factors to take into consideration.

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?

We think that the main factors to be considered are linked to funds' liquidity (minimum liquidity buffer), funds' valuation (amortized cost accounting above 90 days is itself creating a structural risk for the portfolio) and use of ratings.

POLICY OPTIONS

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?

We think that a mandatory move to 100% floating VNAV would be extremely brutal especially for CNAV funds as this would lead to major change compared to their current investment philosophy. We think that such a move should be managed carefully with a smooth transition period.

For instance, in France portfolios have known two heavy reforms:

- in 2002/2003 where marked to market principle has been clarified ; no position with more than 3 months maturity could be subject to amortization and strict

conditions for less than 3 months amortization have been specified (1 year and a half transition period);

- in 2010/2011 where CESR/ESMA guidelines were introduced (1 year and a half transition period since the publication and 6 months since the French transposition).

We think that a mandatory move to VNAV with a tolerance for amortized cost accounting below 3 months would reduce significantly the systemic / run risk in MMF without destabilizing too much the industry. Amortized cost accounting should be more constrained to avoid any significant gap between the shadow NAV and the marked to market valuation.

The implementation of "pure VNAV" funds could prove difficult due to operational issues. It should be reminded that MMFs are funds like any other and that valuation rules should respect the same principle which is: marked to market valuation. When prices are difficult to find or are inaccurate, instruments may be valued using a model. The UCITS Directive enables both valuation methods. Cost accounting valuation is a type of marked to model valuation.

We believe that another terminology should be used for CNAVs because the word "constant" may imply that the fund is not marked to market and cannot lose value (and may even wrongly imply there is a guarantee of the principal).

We think that the fiscal treatment of capital gains (realised or not) should be considered. French MMFs are not authorised to distribute capital gains until 01/01/2013 (and starting with this date, only realised capital gains - and not unrealised - could be distributed). Thus, French domiciled MMFs cannot be created with a constant NAV, but only with a floating NAV, as any other asset management fund. We believe an impact study should be made from a fiscal standpoint on European MMFs market. An MMF, as any UCITS, may have both distribution and accumulation shares. Accumulating NAV funds and distributing NAV funds generally operate under the same investment guidelines, however income is accrued daily for the first and distributed for the latter. In the case of accumulating NAV funds, income is reflected by an increase in the value of the fund shares and is realized upon redemption of those shares at a higher price. Depending on the laws of the investors' country of residence, the tax treatment of distribution and accumulation shares may be different. Also, the fiscal definition of what may be distributed or not (interest, dividends, realised vs unrealised income) differs. It should be clarified (1) if a classical share has the same fiscal effect as a "1 dollar/euro" accounting and (2) how to achieve fiscal coherence throughout Europe on the definition of what may be distributed.

Questions 13 to 18

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?

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?

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?

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?

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?

Question 18: Regarding the different structural alternatives described in Section 1, 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?

French MMFs are only created with a VNAV structure. Thus, the options proposed here do not concern our funds. These options are envisaged as “pledges” in order to be able to maintain the constant structure of CNAVs.

We believe that MMFs are asset management products where the risks of the fund are borne by the investors in a fair and equal manner. The fund’s structure has to be transparent in order to get a good understanding of the underlying risks to investors and avoid run risks and potential side effects on sponsors.

We believe that in order to prevent run risks, a fund should seek the equal treatment of investors. Equal treatment of investors is a fundamental concept to be observed for collective asset management vehicles and it should be clearly reaffirmed for all funds and in particular for MMFs. Indeed, operations on the fund (such as valuation, management of subscriptions/redemptions, etc) should not prejudice interests of investors (either new or existing investors). Marked to market valuation respects this principle.

In this respect, we believe liquidity buckets and marked to market valuation favour the equal treatment by ensuring there is no first mover advantage.

- Relative to NAV buffers, we would be concerned about investors’ equal treatment (market timing)

- Relative to the subordinated equity share class / securitisation solution, it looks as if what led to the crisis of 2007/2008 was becoming the solution to the problem (risk trenching, risk spreading…) and make investors believe that the risk is born by someone else.

- For the other solutions proposed (buffers, insurance, SPV) : it is a way not to tackle the main issue linked to CNAV which is that they are considered by investors as deposit like products with an implicit guarantee from sponsors. We question the ability of these solutions to absorb serious shocks.

- Relative to the option of CNAV reserved for either retail or institutional investors : the diversification at shareholder level can bring some stability and avoid runs. Only one type of investor could lead to increased AUM volatility.

MMF VALUATION AND PRICING FRAMEWORK

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?

It should be reminded that MMFs are funds like any other and that valuation rules should respect the same principle which is: marked to market valuation. When prices are difficult to find or are inaccurate, instruments may be valued using a model. In Europe, the UCITS Directive enables both valuation methods. Cost accounting valuation is a type of marked to model valuation. We thus believe that imposing the use of mark to market valuation is in line with the requirements any fund follows already. We support this proposal as the one that marks the fact that MMFs belong fully to the class of collective investment schemes.

As to the availability of market prices, the current system would need costly implementations to deal with more complicated models when market prices are not available at the very short end of the yield curve. Funds are authorised – instrument by instrument - to apply marked to model pricing. The practice in France is to apply amortised cost accounting (a subset of mark to model) only for negotiable debt securities with less than three months residual maturity and that have no specific sensitivity to market parameters.

We believe that marked to market could be imposed on every line of a MMF, with the facility of using 3-months amortised cost accounting. This less than three months amortised cost accounting is a simplifying valuation model that can only be used when there is no particular sensitivity to markets. It should be reminded that this implies no material difference with the market price.

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 would rather propose an even stricter framework as a mix of Option 1 and Option 2, ie restricting the amortized cost accounting use and using a materiality threshold.

The application of this amortisation faculty should be controlled very strictly by the risk manager of the asset manager, the auditor and the custodian.

The risks of using amortised cost accounting for negotiable debt securities with less than three months' maturity are very small: the interest rate risk over a three months period is much less than on 397 days and the credit risk is four times smaller. Also, the three months period corresponds to the cycle of publication of results by issuers, meaning that a paper under three months has a very high likelihood to be reimbursed at par at maturity.

The framework authorising the use of amortised cost accounting should specify clearly that only negotiable debt securities with a residual maturity of less than 3 months and that have no particular sensitivity to markets can use this method. This is to be understood as a simplifying method to be used only in cases where:

1) there is operational difficulty to access updated and reliable market prices, and

2) in the absence of any particular sensitivities (to credit risk, interest rate risk,..etc), cost accounting proves to be an appropriate approximation (that justifies not to have the need for a more advanced model that would take into account credit curves for instance), and

3) the asset manager has procedures in place, escalation plans, as well as commensurate human & technical means in order to monitor the possible difference that may arise between amortised cost and marked to market (or marked to a more advanced model) price consolidated at the portfolio level.

The escalation plan could define a materiality threshold where the asset manager has to analyse the need to take corrective action so as to keep the pricing difference at or below the threshold level. Corrective action may take the form of switching to a marked to market (if possible) or to a more advanced marked to model price (that would take into account credit curves for instance) in order to value the instrument. The threshold could be for instance 10 bp (alert level) measured on a consolidated level for the entire portfolio and 15 bp (corrective action level).

It is understood that apart from this, instruments (including instruments maturing in more than three months) are marked to market (or, if needed, to an appropriate model that takes into account credit spreads for instance).

OPTIONS REGARDING LIQUIDITY MANAGEMENT

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)?

Even if CESR's Guidelines on a common definition of European money market funds do not impose specific liquidity measures, we nonetheless already apply liquidity constraints in our risk management framework based on market stress level, fund profile, shareholder concentration, client's liquidity cycle, etc. We would welcome a regulators' collective threshold that would harmonise practices. Daily monitoring by the risk department should be in place and monthly publication through the fund's reporting.

The liquidity cushion should be monitored taking into account instruments that can be transformed into cash with certainty, therefore a common definition of liquidity has to be linked to the concept of maturity. Eligible instruments should mature / have callable features within 1 to 7 days: cash, overnight and less than 7 days maturity instruments and deposits, repos with a call at 7 days or less, money market funds.

The weight of the liquidity bucket depends on the mix of measures each fund has put in place depending on its asset liability pattern. Notwithstanding the aforementioned, MMFs could be required to hold a minimum level of overnight liquidity of 10% and 7 days liquidity of 20% with instruments maturing in less than 7 days. A temporary difference should be acceptable if the liquidity bucket is used to meet a redemption that causes the fund liquid assets to fall below the liquidity ratios.

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?

We believe that the principle of making the best efforts to know the fund's shareholders, especially for funds with institutional investors that have cyclical needs, is definitely a highly effective measure allowing to better scale the portfolio (asset side) so as to match the liability side.

The use of asset liability matching techniques helps to address liquidity issues naturally, through the structure of the portfolio and through active adjustments of the portfolio (with for example active bond selection).

The knowledge and monitoring of the client base as well as their subscription/redemption cycles allows for building the fund on the maturity scale and monitoring the necessary level of liquidity cushion. Especially with institutional investors, managers should monitor the client base concentration as well as types of behaviour (by the means of statistical study and/or ongoing dialogue with clients).

Nevertheless, it must be kept in mind that investors have the right to subscribe/stay/exit a fund at any time depending on their needs. Liquidity buckets are also very useful.

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?

We think that redemption "restrictions" for MMFs could have some drawbacks and lead to a widespread "liquidity fear" on all MMFs. Indeed, should an investor be unable to redeem its shares in a specific fund, he would either be forced to redeem its shares from another fund (if he absolutely needs his cash) or pre-emptively start to redeem its shares from all the other funds in anticipation that this measure could be generalised.

We firmly believe that the most appropriate measure is the marked to market valuation (with the possibility to switch to bid valuation) as the NAV reflects market conditions.

We understand that the proposed liquidity fee measure is adapted in the case of a CNAV MMF as it precisely permits to switch from the constant price (where it would have been the remaining holders who would have paid the price of liquidity) to the shadow/mark to market pricing (as it is already done in a VNAV) so the redeemers pay for their need of liquidity. In that respect, we believe this is an excellent measure that places the real price on redeemers, does not destruct the structure of the fund and permits continuing operations.

We also believe that for this measure to be effective it should be permanent in nature and there should be no "explicitly predefined" triggers as investors could anticipate or "front run" the implementation.

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?

In the case of a VNAV fund, if the MMF loses value, redeeming investors already pay the price reflecting the loss. Thus, the option is undoubtedly proposed in the case of a CNAV MMF only. We believe that a precise and fair measure is that the redeemer pays the current market price every time he redeems.

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 believe that in cases of market stress that can have consequences on the NAV, managers should have the option to switch to a bid valuation (the bid valuation option would be clearly stated in the prospectus). This is a comprehensive measure that better reflects the current price of liquidity on the redeeming investors. We believe it may even incentivise incoming investors. We recall that French MMF investors are of

the institutional type, and some of them have already experienced this type of measure. Also, for some specific cases depending on the type of strategy and targeted type of investors, some French MMFs have chosen to permanently value at bid pricing.

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)?

In Europe, redemptions in kind may not be allowed for UCITS funds and investors are not always allowed to receive in-kind. In addition, French investors consider that it is the asset manager's job to deal with the fund and obtain liquidity, not the investor's job.

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?

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 believe that liquidity restrictions on MMFs are difficult to apply even in rather abnormal market conditions and could increase the liquidity stress seen on the market. Nevertheless, they could be considered (GATES) in case of complete absence of liquidity in the financial markets. As long as there is enough liquidity in the market for trading, bid valuation can reflect the liquidity cost and redemptions can be allowed. When markets are dislocated with no trading possibility, MMFs can't be the only vehicle to offer liquidity to clients as this will exacerbate runs on funds.

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 support regulators' efforts to reduce over-reliance on rating agencies related both to requirements on ratings of instruments in the fund and external ratings for the fund itself.

Related to current ratings' reference in "CESR's Guidelines on a common definition of European money market funds", we believe there should be no mandatory reference to CRAs' ratings (no more instrument eligibility linked mechanistically to external ratings). Indeed, we believe MMF managers should internally assess the instrument's quality and CRAs' ratings should only be an optional input.

We believe the eligibility criteria should not be mechanistically linked to all external ratings given to the instrument, rather the mandate of the fund should specify that best quality/highest short term credit levels instruments are eligible and that the quality is assessed by the asset manager.

We believe that it is not desirable to substitute the external ratings provided by CRAs. There should always be an independent "standard unit" to whom different parties may refer. An investor may always want to see a breakdown by CRA's rating of the portfolio, but this is a view, a comparison, a "sanity" check; it should not be an eligibility criteria.

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?

Our view related to MMFs' AAA ratings is that in their great majority, either MMFs are awarded the AAA or they are not rated. Generally AAA rating looks more like a label.

French institutional clients do not want to rely on an external rating to select a MMF. They generally prefer to perform their own in-depth analysis of portfolios and thorough due diligence / RFI with very detailed questionnaires. This is why French MMFs do not ask to be rated. Nevertheless, we acknowledge that some institutional clients situated in other European countries either have rules linked to AAA ratings or prefer rated funds when they buy cross border MMFs.

Notwithstanding the methodological efforts made by rating agencies, we believe that using asset liability management proves often more dynamic and efficient than relying on ratings that use one-size-fits-all type of methodologies. In addition, a non rated fund is not subject to the cliff effect risk inherent to ratings.

We believe that a well-informed knowledgeable investor that has the experience of conducting its own due diligences added to a strongly supervised regulatory framework is both effective and responsible.

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?

No.

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?

Two aspects are to be taken into account when discussing globalisation matters: matters related to the <u>level playing field in a same market place</u> and regional specificities that may require different regulations.

Markets are more and more global, so we would rather have a single level playing field. It would thus be required that funds respect the same underlying rules. We believe CNAVs and VNAVs can co-exist. However, <u>if underlying rules are different for funds sold in a same market, then it would be difficult to explain the difference in</u>

regulation by regional specificities. Thus, in case of unlevel playing field, funds with different underlying rules are unable to be sold in the same field.

In addition, a uniform fiscal treatment for MMFs would permit to lift a certain unlevel playing field favouring on an unjustified manner some structures over the others.

Any questions on this response may be directed to Mikaël Pacot, Head of Money Markets (mikael.pacot@axa-im.com) , or Robin Clark, European and Public Affairs Director (robin.clark@axa-im.com) , who would be pleased to assist.