Amundi
ASSET MANAGEMENT

Money Market Fund Systemic Risk Analysis and Reform Options
Consultation Report

Amundi is the leading French asset manager and, with 658 billions € under management at the end of 2011, it ranks 2nd in Europe and among the to ten largest asset managers in the world. Amundi manages about 2500 funds of different types implementing different investment strategies in different countries.
Amundi Group is particularly active on the Money Market Funds (MMFs) segment with more than 122 billions € under management at the end of March 2012. It runs a large majority of variable NAV and just a few constant NAV MMFs and welcomes the opportunity offered by IOSCO to comment on the Report on *Money Market Fund Systemic Risk Analysis and Reform Options* published on April 27 and currently open for consultation. Amundi comments rely on its own experience and profound knowledge of the industry and express its personal views on the subject. It wishes to express at first some general comments before addressing the 32 questions of the consultation.

General comment:
Amundi strongly supports the response addressed by Association Française de Gestion, AFG, to IOSCO. This response presents a clear explanation of French funds main characteristics and Amundi would like to stress the following points:

- there is a **fundamental difference between CNAV and VNAV MMFs**. Amundi supports the view that the main systemic risk stems from the possible discrepancy between real shadow NAV of a CNAV MMF and its official published C NAV. That possibility creates the risk of a run fuelled by the advantage taken by the "first to sell" in anticipation of a "break of the buck". By principle VNAV MMFs do not suffer the same disadvantage and do not constitute a systemic risk;
- any **confusion between amortized cost and marked to market valuation should be banned**; in particular, the report assimilates French "linearization" process to US amortized cost method, when they fundamentally differ. French linearization, strongly limited to short term listed instruments with low sensitivity to market fluctuations and strictly controlled by risk management teams and external auditors, is a kind of marked to model simplification adopted for short term instruments whose prices are not available on a market place; it is an extremely simple model of convergence at a regular daily pace towards end payment due by the issuer at maturity; it is not an alternative to marked to market method it is a way to find a practical way to implement it;
- **FMMs are and should undoubtedly be marketed as Investment Funds with all the risks attached to them**, i.e. price movements up an down with no guarantee to recuperate invested money; they are however the less risky of investment funds and offer a permanent liquidity and aim at a regular increase of value on a short period; **any attempt to market MMFs as deposit-like instrument leads to essential difficulties** which are inherent to the proposed distortion consisting in twisting a Fund into a kind of deposit (check books, periodic interest, capital protection…); this point has definitely been overlooked by the report and that brings opacity to the analysis;

- consequently, many options envisioned are non conceivable for MMFs: buffer is not appropriate whatever its form, restriction on liquidity and any denial of immediate availability of the investment to the investor is contradictory to the essence of MMFs; suggested options find their rationale in the refuse to express the only strong principle that a MMF is a fund; alternatively CNAV MMFs could be transformed in SP Banks;
- **contribution of MMFs to the economy**, mainly through their active participation to short term money markets should not be underestimated; especially at a time when growth is a key objective, the importance of short term funding offered by MMFs to governments, banks and corporates is highly valuable and all efforts should aim at reinforcing confidence at large, by protecting investors and avoiding turmoil on financial markets.

These preliminary remarks frame Amundi's views which are further detailed in the answers to the questions of the consultation.

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?

Amundi considers that the prime objective of an investor when buying shares in a Money Market Fund (MMF) is to obtain a positive performance in relationship with current level of money market rates. The preservation of capital is decidedly not appropriate to characterise a MMF as it would not differentiate MMF from a bank deposit. Reference to daily liquidity and diversified portfolio of high quality/ low duration fixed-income instruments is correct, as long as it opposes fixed income instruments to shares and includes variable rate instruments. We may suggest however that to add the objective of regular increase of the NAV would clearly outline the fact that investors are investing in a fund with all associated risks.

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?

CNAV MMFs are particularly vulnerable to runs. The principal factor of a run is to be found in the discrepancy between marked to market value and published NAV. As analysed below, Constant NAV MMF do offer an advantage to the first to redeem, thus creating an incentive to run. Variable NAV Funds are far less sensitive to the run risk, especially if investors are aware that negative price movement is possible from one day to the other. As mentioned a diversified clientele basis does help to avoid identical behaviour and mitigates the risk of a run.

Thus the 3 key reasons for runs are to be found in the possibility of a discrepancy between MtM value and NAV, the lack of education of subscribers on the possibility of a loss, the concentration of clientele on one type of investors.

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?

The prominent role of MMFs on the short term money market and their contribution to the financing of the economy cannot be denied. However Amundi does not agree with the analysis of the risk it may create. If MMFs use their own credit risk analysis capacities and decide to prefer one issuer or another they do not cause disruptions in the market as they manage this type of reallocation progressively at the time when the papers come to maturity. It is a stabilising effect when compared to the attitude of Credit Rating Agencies (CRA) whose decisions may lead to immediate sale of

instruments. The recent experience, including the ban of European banks in 2011, has proved that the risk should not be overestimated. There is however an area for concern that relates to the proposed banking regulation, Basel 3, which does not consider the relative stability of the CDs subscribed by MMF as it does for client accounts balances. One may fear that banks will no longer find interest in issuing short term CDs making it impossible for MMFs to invest.

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?

Amundi runs many MMFs that are distributed by commercial banks networks. All prospectuses explicitly mention that there is a risk that the NAV may drop from one day to the following. There is thus no *bona fide* expectation by subscribers that the sponsor guarantees the capital invested. On the other hand the possibility to buy and sell shares of the MMF daily is clear and may put some pressure on the sponsor bank. It is first the role of the manager to take the risk of liquidity in consideration and he does so with the help of the distributor who knows the clients best. The implication of the sponsor is to be found in that knowledge of the clients and it is its duty to inform the manager of any risk of large redemption it can anticipate.

This analysis refers to Variable NAV MMF. If we consider CNAV funds the implication of the sponsor might be much higher as the thread of "breaking the buck" put some more pressure on valuation issues and risk of massive simultaneous redemptions.

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, Amundi agrees that MMFs present many advantages for investors and sees those as an explanation for the continuous success of MMFs, even in a period of very low interest rates. Any alternative to investment in MMF shows a disadvantage for investors (yield, concentration, access for too small or too large amounts, operational risk, need of capacity to monitor investments …). Diversification, access to better market conditions and availability for transitory investments are mentioned in the report. Other advantages could be added to the list: active management and credit monitoring, transparency, segregation from a bank's balance sheet, accessibility for daily moves, accessibility for very large amounts…

Clientele of MMFs is both structural with excess cash management and conjuncture-linked with transitory safe investment. Outflows depend on the general economic environment for the first part and when confidence comes back and investment starts MMFs lose assets. Confidence and appetite for riskier investment is the key for prompting redemptions for the second type of clientele. Good news! One should not fear lower assets under management in MMFs as it would mean that the economic situation turns much better.

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

No, the description as it stands shows a misconception of what a MMF is, at least in continental Europe. It is a Variable NAV Fund and it has always been offered to the client as a financial instrument to invest cash in. It has never been offered as an alternative to deposit but as an investment possibility, out of the bank account with the necessity to open a securities account. Subscriber places an order to buy or sell as he does for any transaction on a security. It is an alternative to other types of more risky investments: MMF is traditionally positioned on the product

range as the less risky type of UCITS or fund. But it is always sold as a fund with explicit mention in the documentation of the fact that NAV may drop from one day to the other. When the client wishes to get his money back on his account he must place a redemption order. Comparing a VNAV MMF with a deposit account seems in that respect beyond comprehension.

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?
The essential difference between C NAV and V NAV funds lies in the fact that VNAV fluctuates when CNAV does not; thus CNAV cannot track as properly as VNAV do the money markets trends and fluctuations. This is evidenced when comparing second degree momentum of price fluctuation of MMF: if the comparison of the NAV fluctuations of VNAV and C NAV funds does not show many differences (as it is unusual if actually possible for VNAV to show a decrease of price) the comparison of the volatility of these daily price changes shows that VNAV funds are indeed different from CNAV MMFs. It should be noted that many VNAV Funds offer a liquidity on D Day for subscription and redemption orders placed before the cut off time.
Taking the example of French accounting principles, it is an error to suggest that the so called "linearization" approach is similar to the amortized cost method. French MMF are valued on a marked to market basis for all the constituents of their portfolio. For CD's and CP's only and when they have less than 3 months to run till maturity, there is an option to refer to a model pricing and add daily the accrued interest and the daily linear capital difference, computed by difference between last price and reimbursement divided by the number of days remaining till maturity. It is in that respect quite comparable to amortized cost method. But this option, under French regulation, can only apply on instruments that are not sensitive to market fluctuations, for example if there is no thread on proper reimbursement by the issuer at maturity; in other words, there is no room for linearization to mask a credit risk.

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?
Influence of CRA on MMFs is larger than on any other type of fund: on one hand fund managers may explicitly rely on rating categories for their investment (and they are obliged to in Europe where CESR rules refer to ratings), on the other hand some MMF are rated themselves. CRA's have created a set of internal rules to determine the rating of a fund that, in a circular way, refer to their own public ratings of different issues and programs. They do not appear, at first sight, to act as an external audit having an unquestionably positive impact on the quality of the fund. Questions 29 and 30 below address in more details the CRA's issues.

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?
One should consider in which circumstances MMFs use repos and securities lending. MMFs are generally not active on the securities lending market. On the contrary they are very large players on the repo market. MMFs have loads of cash to invest short term. Reverse repo is largely used as a safe way to place cash with a collateral in securities that are transferred to the fund. It is safer than a deposit on a bank account thanks to the collateralisation it provides. But for liquidity's sake MMFs

will require a possibility to return the securities for cash at any time with a 24 hour notice. The Repo activities of MMFs are, legally in France, structured with a 24 hour call. Due to this specific provision, MMFs should benefit from a large autonomy to negotiate haircuts, types of eligible securities and margin calls. Call or reset of the transaction is often more effective than adjustment of collateral.

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?

The most relevant changes in the environment of MMFs are:

(i) the new regulatory framework (especially the 2a-7 US rule and the new ESMA criteria in Europe); the new rules have defined a strict framework within which MMFs are allowed to evolve; so far these measures have proved their efficiency, since no major incident has been identified in MMFs management despite unsettled markets prevailing over the last months;

(ii) the new regulatory framework planned for banks (Basel 3) with the creation of two liquidity ratios, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR); both ratios could create a gap between banks incentivized to find longer term funds and disregard short term CD's and MMFs keen to favour short term instruments.

Question11: Do you agree with the systemic risk analysis and the rationale for reform presented in this section? Are there other factors to consider?

It cannot be discussed that improved regulation will favour MMFs industry and reinforce financial stability. Amundi would like to point out that (i) MMFs importance in Europe is very low when compared to figures in the US and other countries, (ii) MMFs in Europe can not be included in the definition of deposit-like instruments as they are actively managed funds with no other specificity, compared to other funds, than their low level of risk, (iii) VNAV MMFs in France are not using amortized cost method as they must at all times reflect the credit risk of their holdings in the NAV.

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?

Beyond the mandatory move from CNAV to VNAV, the most important factor is the ban of the amortized cost valuation that may generate discrepancy between official and shadow NAVs. Subscribers of both C and V NAV MMFs should be prepared to see declines in their investments and to accept the "break of the buck". In that respect the introduction of two more decimals in the price of aCNAV units would make the "break of the buck" less traumatic: a decrease in price of 1bp is far more manageable than a 1% change.

Were the mandatory move to VNAV decided, and Amundi supports this position, there should be a transition period, to allow time for the necessary adjustments (modification of regulations and rules for pension funds managers or treasurers).

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 favour 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?

As a general rule, Amundi is not in favour of any buffer. The introduction of any kind of buffer would suggest that the ultimate objective of a MMF is to provide shareholders with a zero-risk investment, which does not exist. The Report should focus on the key issue: why are CNAV MMFs sold as deposit-like instruments? The question is one of distribution and sales and not one of fund management. It is a case of mis-selling and regulators have to address that issue in priority.
In addition, the implementation of a buffer would create many more difficulties (raising tax, operational and even conceptual issues) than it would solve existing problems. Moreover, the cost, to be paid by either the shareholder or the sponsor, of a buffer mechanism would considerably weaken the business model of MMF industry, particularly so in an environment of extremely low rates.

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?
If the need for protection through an insurance policy were confirmed by investors it would be for them to ask insurance companies to enter into that business and make an offer at a plain rate. A mandatory system suffers all the disadvantages mentioned under question 13.

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?
For VNAV MMFS, even first round advantages of a conversion of MMFs in SP banks are fallacious. When considering certain CNAV MMFs, this suggestion might make sense. Those CNAV MMFs that are marketed not as funds but as deposit-like instruments could effectively be licensed and supervised as Special Purpose Banks. There would be a clear-cut choice for CNAV MMFs: turn to variable NAV and be marketed as investment schemes or be distributed as deposit-like instruments and become SP Banks.

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?
Apparently there is room for a coexistence of VNAV and CNAV MMFs as long as clients have a clear understanding of the differences between the two categories. ESMA decided that CNAV funds could only be classified as short term (ST) MMFs and that suggests that a real pedagogical talent should be developed to explain in Europe the 2 categories and the fact that the ST MMFs split in two techniques.
But as long as the intrinsic default of CNAV, i.e. the risk of a discrepancy between published official NAV and marked to market shadow NAV, is hidden there is no room for peaceful coexistence. Any specific regulation will not be of any use if the issue of lack of transparency of CNAV is not properly addressed.

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?
Yes, it is not a realistic approach to dedicate a category of funds to a type of clientele. The most important point when addressing the liability side of a fund, i.e. the clientele, is to maintain a large and diversified basis of clients. It increases the chances of mutualisation, the basis of any insurance. Moreover, it is impossible to prejudice that institutional or retail clients are more likely to provoke a run.

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?

When examining all the possibilities described in section 1, the report overlooks the only fundamental question: how to stop MMFs to be sold as deposit-like instruments? This is the first and only priority.

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?

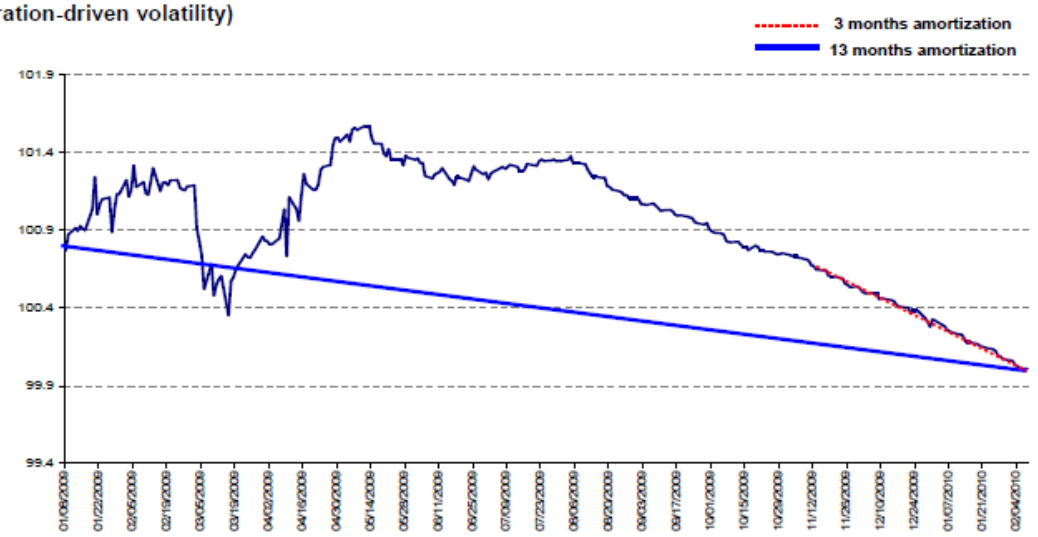
Using marked to market prices for all instruments held by MMFs is the only way to suppress the risk of discrepancy between official and shadow NAV. It should be considered as a real improvement. For practical reasons one should accept that in the absence of specific market prices valuation models may be appropriate. Models usually rely on yield and spread curves that are continuously monitored. If a transaction shows a price on an instrument valued on the basis of a model, the listed price should be confronted to the marked to model price. It should not always be conclusive but always challenged.

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?

Decisions on the topic of fair value have to be reached with pragmatism: recent experience of the way difficult times have been overcome by MMFs teaches a lot on the appropriate level of flexibility which is applicable. As outlined in the report "*cost involved in requiring market prices for securities very close to maturity… may not be justified*". Linearization (as used in France), or amortization in the absence of market turbulences, has to be considered as a fair improvement of amortized cost method. Its use is rightly limited to short term maturity products, which are less easily traded on secondary markets any way. Graphs presented at the IOSCO hearings in March 2012 show how great the difference is between amortization on 13 and 3 months. One is copied here, chosen out of several others which showed the same.

Appendix 2.1 : compared bias between 3Mths and 13Mths amortization

1st example : "TOYOTA 4% 2/12/2010" (ISIN XS0162394299) - Last 13 months market price (duration-driven volatility)



Source : Bloomberg, BGN

Thus, Amundi supports the view of a 3 month maximum period for amortization or linearization. It also approves the idea of a threshold of materiality simply because NAV calculation is not an exact science. In fact the two proposed options have to be considered together and not as an alternative. MMFs NAV should be calculated on marked to market basis with a possible reference to models in case of absence of available recent prices and with a limited recourse to linearization. A constant monitoring of actual prices when they appear should be undertaken to justify that there is no discrepancy larger than the authorized threshold between published NAV and last-price-based NAV. The threshold should be strict and a figure around 10bp or 0.10% seems reasonably tight.
Amundi does agree that all instruments with the same characteristics should be valued using the same accounting method in the same portfolio and even in all portfolios of the same category of funds.

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)?
Liquidity management is and has always been one of the key concerns of a MMF manager. He knows that clients may get in and out every day and makes sure to have enough liquidity and investment solution to face the situation. Liquidity is only constituted of cash and cash equivalent assets. Short term denominated Corporate or Government bonds or bills are not liquid assets since they require a sale to be transformed in cash and recent history proved that some Government bonds may become illiquid overnight. It is then important to prefer the notion of cash available instead of liquid assets and limit it to cash, 24 hour repo, MMFs and instruments with a maturity of less than a week. A minimum investment ratio of around 10% in this restricted list of assets could be considered as a necessity for MMFs.

However it should be kept in mind that introducing a ratio in the regulation could lead to perverse effects: the real level of cash necessary is very much a function of the clientele and their estimated behaviour, and a 10% ratio might be simply grossly undervalued for some funds at some times; regulators should not suggest that the proposed ratio is a guarantee that the compliant MMF is able to face its liquidity requirement.

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?

As a general principle MMF management is not only a question of investing properly but also, and probably more importantly, of anticipating the appropriate level of investment at all times. Thus the manager wants to know as much as possible on clients and their expectancies. In that respect a MMF manager will certainly improve over time and experience is a key factor of success. To anticipate the need for liquidity the manager will rely on two sources provided by commercial and marketing staffs: direct approach of large holders of the fund in order to flag their flows (even behind the omnibus account of another bank) and statistical analysis of the lot of anonymous smaller clients. Tracing of orders, when implemented, will improve the possibility to better analyse large amounts. Diversification of clientele is of paramount importance to avoid concentration of identical orders on the same day.

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 or other devices aiming at reducing the liquidity of a MMF is not appropriate. If systematic, it will break the present understanding that MMF are available daily for subscriptions and redemptions. MMFs would greatly suffer from such a decision and in return a shock of systemic importance would undoubtedly impact short term markets. If it is used only in case of necessity, its activation would act as a powerful trigger to prompt investors to run out of the fund provoking the same type of shock.

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?

Bad reaction has to be anticipated. Introducing a minimum balance withheld and kept at risk is simply contradictory with the usage of MMFs and would mean immediate transfer to other types of assets.

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?
Among the proposed suggestion of this section, the valuation at the bid price is the only one to be acceptable for Amundi. The transition to bid prices should be run smoothly and probably apply progressively starting with the longer maturities first and then expanding to shorter ones if necessary. It is an option already at hand for managers in France as they may choose that method for valuation. The risk is to penalize the existing fund holders in favour of the new subscribers who benefit from an investment at bid price. It is then adapted to periods when redemption is the trend.

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)?
MMFs are vectors to keep cash at hand in the best conditions. A MMF cannot think of offering payment in kind, not to mention practical difficulties that this implies.

Question 27: What are the benefits and drawbacks of requiring gates in some circumstances? Which situations should trigger gates to be imposed to redeeming shareholders? Would it be enough to permit gates in some jurisdictions? Would there be a risk of regulatory arbitrage?
Any restriction to liquidity is nonsense for a MMF. In case of emergency it may suspend redemptions and try and find with all clients the best and most equitable exit.

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?
Yes, Amundi agrees that the option of a private liquidity facility is not workable. It would even increase moral hazard and favour an anti-selective process in favour of less professional or riskier MMFs managers.

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?
Amundi supports the trend towards a lesser dependency on CRA ratings. In its processes for MMFs and other types of funds it relies on its internal capacity to analyse and monitor risk independently. However Amundi believes that CRA ratings should not be disregarded as they express an opinion, convey some information, are attentively scrutinized by market participants and have a market impact when they change. Smaller firms may also prefer to principally rely on CRA ratings and should not be prevented to do so if it is clearly explained to the subscribers. It would not be practicable to turn to a world without ratings.
In the regulation CRA ratings should be used in safe harbour rules as an example of external assessment of credit risk and should not be part of the legal corpus. The same principles should apply to investors own investment guidance. In that regard ESMA rules applicable to MMFs explicitly refer to rating categories and should be amended to reintroduce some flexibility and as a way to dilute the market impact of a change of a CRA rating. Transforming a discontinuous process (sale when a down grading is announced) into a more flexible continuous process (decide to keep or sell irrespective of the change of CRA rating) is very important for market stability.

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?
MMF rating could be helpful for investors if it were on one hand correctly explained and understood and on the other hand if it relied on criteria relevant for them. Many doubts appear on both accounts. The scale of MMFs ratings starring at triple A is in it self misleading as it uses long term references for an instrument belonging to the short term world. True, that A1 or Prime is less easily understood than the famous triple A which penetrated even the popular press! But CRAs try an capitalize on the image of the triple A explaining that if for a MMF it is a AAAm for example as opposed to AAAf for a longer term fund…confusion an lack of transparency in any case. CRA rating of a MMF considers rules of organisation and valuation of the manager and imposes investment rules with limits in maturity, average WAL and WAM and limit, except for a small percentage, investment in issues and programs that they have personally rated. Clients may prefer diversification on first quality names rated by another CRA or not rated, they may look for the best ratio between acceptable risk and performance…
A rating will not help them in that. Rating is understood as a marketing tool and managers have decided not to publish a rating that would not be triple A. There is no means for the regulator to encourage greater differentiation between ratings. But a disclaimer put next to the rating of the MMF each time it is mentioned could help investors understand what a rating is and is not. Education is the priority in that respect.

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 distribution and sale of MMFs should be regulated. If MMFs are sold as funds and not as deposit like instruments, all the mentioned and analysed risks either disappear or are highly mitigated.

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 ?
Due to large differences between local jurisdictions it cannot be decided to implement the same regulation world wide at once. It should be considered an objective to converge to a similar regulation and ensure in the future a totally even global playing field. It will require several years and evolutions should be implemented gradually in order to avoid market disruptions. Thus, different legislations will coexist for several years with a shared view to convergence.

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