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?

AMFI Response: MMF regulation should concern itself with funds explicitly targeting a stable NAV. Funds which opt to take a higher risk while making explicit to investors that they are not bound by MMF regulation should be encouraged as it would reduce systemic risk (these funds are not bound to hold stable value).

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?

AMFI Response: Yes, we agree on the description. Money market funds are more susceptible to runs as there is an (implicit) promise of NAV stability which would cause more sophisticated and/or risk averse investors to redeem in case of sharp movements in interest rates. Even variable NAV funds that invest largely in amortised-cost assets are similarly vulnerable.

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?

AMFI Response: The Indian experience is similar to the description outlined. Indian mutual funds (including liquid funds) are the source for about 60% of money market funding (commercial paper and certificates of deposit). Since the financial crisis of 2008-09, investor preference for lower risk and regulatory changes have prompted significant lowering of WAM across money market funds. The mix of assets held has also shifted significantly in favour of certificates of deposits issued by banks relative to commercial paper issued by non-bank entities. In part this is due to the more liquid nature of the CD market. However regulations too have played a part with the central bank permitting repos in CDs during the crisis period, and SEBI encouraging limiting exposure to non-CD exposure per sector. In India, limits have been imposed on banks holding in money market funds and funds are not allowed to hold deposits in banks which have invested in them. These rules have reduced the inter-dependence between banks and money market funds – especially to the extent that banks were using money market funds to perform maturity transformation.

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?

AMFI Response: Since the financial crisis of 2008-09, investors have tended to look for strong sponsors. Indian sponsors, and bank sponsors in particular, have been favoured over foreign sponsored funds. The market share of Indian sponsored funds increased by 8 percentage points (from 74% to 83%) during the period from Dec 2007 to March 2012. Almost the entire increase in market share can be explained by an 8 ppt increase in share (from 39% to 47%) of Indian Bank

and Institutional sponsored mutual funds. Instances of sponsor support during the crisis and in 2010 (domestic money market liquidity squeeze) have consolidated this view by clients. The sponsor support is implicit and not backed by provisions by the sponsor. There are risks of transmission of money market liquidity crisis to the wider system through sponsors.

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?

AMFI Response: We agree with the description of the importance of MMFs for investors. Apart from financial benefits (higher yield), investors look for liquidity and safety when it comes to their short-term surpluses, both of which are provided by MMFs. If anything, As compared to other financial products, safety (and perceived safety) is paramount in money market products. Safety is perceived through regulatory comfort, transparency, ratings, etc. As investors come with very short horizons (as low as one day), anything that could compromise overnight safety could lead to investors moving away from MMFs. This includes changes in regulations that compromise perceived safety.

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

AMFI Response: The key difference is that investors in money market funds are shareholders and do not have access to capital buffers. MMF investors are not lenders to the MMF. Thus they are structurally different from bank deposits. While investors may compare the two, regulators must be wary of such confusion.

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?

AMFI Response: Indian MMFs are VNAV funds. However they are invested in a way to ensure that substantially all of the assets are valued through amortised cost method. With Indian regulations requiring mark-to-model valuation for assets beyond 91 days to maturity from 2010, MMFs and similar funds have largely invested in assets below 91 days. From Sep 30, 2012, assets beyond 60-days are to be marked-to-model. This should lead to liquid and similar funds restricting their holdings below the 60-day threshold.

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?

AMFI Response: Indian liquid funds use ratings in two ways. Regulations require the funds to be only invested in investment grade debt. Many liquid funds in India are also themselves rated on portfolio quality. While regulations only require investment grade, in practice money market funds in India have largely invested in AAA/A1+ and equivalent debt. Liquid fund credit ratings in

India are a function of the portfolio and do not represent an opinion about the NAV or the sponsor's support.

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?

AMFI Response: Indian mutual funds participate in repo markets as lenders. Except during the financial crisis, funds are not permitted to borrow in repo. In general mutual funds have participated in repos with government bonds as underlying. There are no special issues with the use of repos by MMFs in India.

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?

AMFI Response: Changes in MMF and valuation regulations have led to reduction of WAMs in MMF portfolios. This has led to significant changes in the issuance (and therefore funding) pattern of commercial paper and certificates of deposits. However banks in India remain deposit funded (certificates of deposit represent less than 10% of banks' deposit base). This would have limited impact therefore on bank's capital or asset-liability structures. In wholesale funding markets, though mutual funds remain the providers of over 60% of funds. Thus changes to MMF regulations have a significant impact on yields and liquidity in the wholesale money market.

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?

AMFI Response: Agreed.

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?

AMFI Response: Prohibition of the use of amortised cost for valuation would have a significant impact on money markets. Any such change should be introduced after giving markets and investors time to digest the impact of these changes. In the Indian context the change to mark-to-model assets maturing beyond 91-days was communicated well in advance of its implementation in August 2010 and cause little disruption in the money market. On the other hand, uncertainty created by new fair valuation norms in February 2012 caused a significant disruption in the money markets leading to yields rising by 60-100 basis points over the course of the next three weeks. As markets absorbed the impact, yields returned to previous levels over the following two weeks. While the market disruption was for a short duration, it could have been avoided by sufficient notice as in previous occasions.

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?

AMFI Response: MMFs are collective investment schemes. Creation of capital buffer violates the spirit of collective investment. The key difference to bank deposits remains the higher yields offered in exchange for risk taken. This difference must be maintained for CIS structure to work. Similarly a sponsor-funded buffer is a back-door way of creating a bank and is incompatible with the working of a CIS.

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?

AMFI Response: In the Indian experience, mutual funds are allowed to borrow to fund redemptions. The ability to borrow is typically backed by a line of credit from a commercial bank (similar to the private liquidity insurance discussed here). There is no regulatory requirement for such lines of credit though many MMFs choose to have liquidity lines available in case of large unexpected redemptions. Mandatory participation in liquidity insurance would encourage higher risk taking by MMF managers and could defeat the purpose of the mandate. Voluntary participation encourages diversification of liquidity levels and would reduce some correlation across funds maintaining different liquidity characteristics.

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?

AMFI Response: Conversion of MMFs into banks converts shareholders into deposit holders. These funds would no longer be collective investment schemes. There would be significant implementation challenges in a country like India where bank licenses are limited.

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?

AMFI Response: No response.

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?

AMFI Response: No response.

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?

AMFI Response: The various options discussed largely deal with trying to control "losses" in case of market events/changes in interest rates/large redemptions, etc. Most of these options are structured in a way incompatible with the principles of collective investment. At first principles, investors in a CIS should be treated as shareholders rather than deposit holders. As a result any gains or losses should pass on to the investors. In order to maintain a balance of safety, liquidity and yield, MMFs should ideally move to a VNAV model (option 4.1.1). However any such move should be communicated well in advance to prepare market participants and investors for the move. All the other models introduce elements incompatible with CIS principles. Of the other options presented mandatory liquidity insurance (4.1.2.2) presents the least deviation to CIS principles but in practice could lead to moral hazard as it would encourage illiquidity in MMF portfolios. We have no comment on the two-tier system (4.1.2.3).

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?

AMFI Response: The benefits are as stated. While the document has presented the case from an early redemption forcing losses on residual investors, the opposite case is also true. In case the fund makes gains from its investments (example as yields decline), in amortised cost valuation later investors benefit from early investors. The markets may remain illiquid, however mark-to-model approaches (risk-free benchmark + spread) may be sufficient to capture market movements. In order to avoid small movements in yields from leading to NAV volatility, it may be appropriate to allow amortization as long as deviations from model-derived prices remain small. The deviation should remain small to reduce the incentive to redeem early in the event of large market moves (as proposed in 4.2.2.2 Option 2). Larger moves should be reflected in the NAV immediately.

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?

AMFI Response: The option 2 to permit amortization at an individual asset level as long as deviation to model/market price remains small may be preferable. For example the Association of Mutual Funds in India (AMFI) recommends that the deviation be less than 0.1% of the model derived price for use of amortised prices. As price deviation is a function of yield deviation and duration of the instrument, there is an incentive for the fund manager to reduce risk by reducing the duration of the individual assets. This is consistent with reducing risk on the MMF as a whole. This option would be preferable to a general restriction on WAM or WAL as the risk control

would be based on market based risk rather than fiat. Restricting the residual life/maturity of instruments in MMFs is also an option to consider. The Indian experience could be of value in understanding the market impact. Residual maturity (repricing risk) was restricted to 1 year under liquid fund guidelines. This was revised to residual life (to final maturity not considering repricing, calls/puts etc.) of up to 91 days in 2009 in the aftermath of the financial crisis. Adequate time was given to allow existing bonds to mature. The industry was able to adapt to the new structure and has continued to grow. While this has resulted in higher rollover risk for issuers, it has reduced a source of systemic risk for the financial system.

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)?

AMFI Response: The main benefit of imposing liquidity restrictions is that it encourages fund managers to meet redemptions out of maturing assets rather than through market sales. This works particularly well in less developed money markets like India where secondary markets may not be a sufficient source of liquidity. However imposing norms would mean that regulators must guess at redemption patterns that may change over time. In addition classification of instruments into “liquid” and “illiquid” may not be feasible and could encourage regulatory arbitrage. Regulators should encourage MMFs to adopt liquidity norms to address their specific investor pattern.

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?

AMFI Response: In the Indian context investor information is available with the fund. Historically funds have been able to reasonably anticipate outflows (e.g. end of quarters, tax payment dates) based on knowledge about customer behaviour. This does not remove the risk of unexpected redemptions. Limiting investor concentration could lower the risk (though in a single country market there is still a high possibility of concurrent redemptions). In India regulations require that no investor be more than 25% of the corpus of a fund (quarterly average basis).

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?

AMFI Response: Restrictions on redemptions and liquidity fees are not consistent with investor expectation from MMFs. However investors are likely to accept such restrictions if they see the benefit they themselves would get (i.e. it reduces the risk that someone else exits early in a run). The liquidity fee option is less preferable here and could be avoided by going to a model such as described in 4.2.2.2 Option 2.

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?

AMFI Response: A minimum balance requirement is similar to creating equity and deposit type of relationship across holdings. This is inconsistent with principles of collective investment and should be avoided. Investors in MMFs value liquidity and safety above yield and compromise on liquidity – even on a small portion of their investments – would fundamentally alter investor approach to MMFs.

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?

AMFI Response: Using bid prices reduce the risk of runs. However bid prices may be as subjective when it comes to fair valuation and fair treatment of investors as a mark-to-model approach. In illiquid markets it may be more fair to use a model rather than bids which may substantially undervalue the investments.

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)?

AMFI Response: Allowing redemptions in kind may reduce the possibility of a run on a fund. ETFs in India allow subscriptions and redemptions in kind (index baskets). However in money market funds, this may lead to more problems than solutions. Market lots may mean that a fair division may not be feasible and residual holding may be illiquid. If investors anticipate redemption in kind may be in the offing, this may accelerate a run as more knowledgeable / sophisticated investors preempt redemption in kind by redeeming early.

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?

AMFI Response: Gates address the issue of concurrent redemptions even where the investor concentration is limited. Gates based on percentage of NAV have to be considered against gates based on absolute value. Smaller funds may be able to obtain liquidity through the market, while larger ones may not. Gates based on percentage would be unnecessary for small funds. Gates based on absolute value could discourage funds from getting very large. However that in itself reduces systemic risk.

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?

AMFI Response: It is our view that MMF liquidity should occur through the portfolio itself. A private liquidity facility creates problems of free-ridership and/or moral hazard. Restrictions through limits on investor concentration and/or gates should be preferred over mandatory liquidity facilities.

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?

AMFI Response: External CRA ratings only express an opinion by the CRA. As the financial crisis proved, CRA ratings are fallible. The responsibility for credit evaluation should be on the MMF manager and the CRA rating may be one input. Credit ratings of individual instruments and the portfolio as a whole are used in India as a signal to investors about the portfolio quality. They serve as a tool for investors to evaluate MMFs and should be used as such. Investment restrictions based on ratings may not be required as a result.

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?

AMFI Response: Investors in MMFs value safety and liquidity above yield. As a result non-AAA funds are unlikely to attract money. There does not seem to be any compelling case for differentiation based on credit quality. Given the strong investor and manager preference for AAA rating, tightening the norms to obtain a triple-A would only encourage compliance with the new tighter norms. This will not lead to differentiation.

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?

AMFI Response: 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?

AMFI Response: There are significant differences in market conditions, state of market development, investor behaviour and expectations across countries. What may be a significant volatility in a developed market may be par for the course in an emerging market. As a result a single global solution may not be reachable. However general principles could be applied across jurisdictions. These may include best practices on liability side (investor concentration, gates) and asset side (liquidity, fair valuation). Other proposals such as conversion to special purpose banks require significant changes to legislation and/or regulation to be practical across countries.

Additionally capital accounts are not convertible in many jurisdictions and global rules may not be applicable.