CNMV ADVISORY COMMITTEE RESPONSE TO THE IOSCO CONSULTATION PAPER WITH REGARD TO Money Market Fund Systemic Risk Analysis and Reform Options

OICV - IOSCO Consultation Report 07/12

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Money Market Fund Systemic Risk Analysis and Reform Options

CNMV´s Advisory Committee

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CNMV ADVISORY COMMITTEE RESPONSE TO THE IOSCO CONSULTATION PAPER WITH REGARD TO MONEY MARKET FUND SYSTEMIC RISK ANALYSIS AND REFORM OPTIONS

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CONTENTS AND INTRODUCTION

Executive summary

The objective of this document is to analyze the discussion paper published by IOSCO on the 27 April 2012 on the "Money Market Funds" (hereinafter MMF). At this end, the document begins with a summary of the origin of the document, with a brief reference to the assumptions on which IOSCO bases its conclusions and those aspects over which this organizations calls for comments. Next, a few considerations about the most significant aspects of the consultation are included, with a summary reference to the regulatory framework and accounting methods of MMF assets. After this framework, the report describes the conclusions achieved using this analysis taking into account the criteria expressed in different recent studies and the positions held in other jurisdictions. Finally, as an annex, the questions raised in the consultation paper are included.

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1. Consultation report 07/12 origin of the document and objective

The recent financial crisis highlights the vulnerability of the financial system including the MMF[1] to systemic risk. As a consequence, the FSB[2] has asked IOSCO to undertake (with deadline July 2012):

- To review the potential regulatory reforms of MMFs that would mitigate their susceptibility to runs and other systemic risks, taking into account local regulations..
- to develop policy recommendations

In this regard FSB has asked IOSCO to review:

- The role of the MMF in funding markets
- Different categories, characteristics and systemic risks posed by MMFs in various jurisdictions, and the particular regulatory arrangements which have influenced their role and risks;
- The role of MMFs in the crisis and lessons learned
- Regulatory initiatives in hand and their possible consequences for funding flows; and
- The extent to which globally agreed principles and/or more detailed regulatory approaches are required/feasible

[1] MMF: Money Market Fund
[2] FSB: Financial Stability Board

The objective of this consultation paper is to share with market participants IOSCO's preliminary analysis regarding:

- the possible risks MMFs may pose to systemic stability
- possible policy options to address these risks

The consultation paper includes:

- Appendix A with a set of questions in each of the sections of the consultation paper (32 questions – see annex A which is included in this document)
- Appendix B with background information which analyses:
    - The history of the development of the MMF
    - Their significance in the market and investor base
    - Their role in the Funds Market
    - The experience gained during the financial crisis 2007-2008
    - regulatory changes since then
    - Recent literature about MMF

IOSCO asks for critical feedback/comments on the analysis made and on the different policies posed for discussion in the document (with deadline for comments 28 May 2012) so that they could be taken into consideration in the preparation of the final recommendations to address to FSB.

2. Relevant Aspects[3]

European regulatory Framework

There are different EU Directives regulating the monetary market[4]. Thus, following the UCITS Directive, 'money market instruments' means instruments normally dealt on the money market which are liquid and have a value which can be accurately determined at any time. These criteria are provided in the Directive of 2007 on eligible assets.

1. Eligible assets can be sold at a limited cost within a reasonable short time, taking into account the obligation of the UCITS of repurchase or redeem its units at the request of any unit holder.

2. Their value can be accurately determined at any time, e. g. there is an accurate and reliable valuation system, which enable the UCITS to calculate a net asset value in accordance with the value at which the financial instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction and are based either on market data or on valuation models including systems based on amortized costs.

Accounting Methods

MMF are allowed to use two separate accounting techniques to value their assets

1. Amortized cost accounting which values the assets at their purchase price, and then subtracts the premium / adds back the discount in a regular fashion (linearly) over the life of the assets. The assets will then be valued at par at its maturity

[3] Relevant Aspects as in the Consultation Report

[4] Transposed to the Spanish legislation by the regulations governing Collective Investment Institutions (mainly the 1309/2005 of 4 November, which approves the Regulation of Law 35/2003 of November 4, IIC, as later amended by Royal Decrees)

2. Mark-to-market accounting which values the assets at the price that could be obtained if the assets were sold (i.e., market price).

86% of the assets managed by the MMF global industry are concentrated in USA (57%) and Europe (29%) where France, Ireland and Luxembourg represent a combined market share of 88%.

In USA and in some European countries (Ireland and Luxembourg) as well as in other countries as Japan, China and Canada, CNAV ("Constant Net Asset Value") is offered. These are funds use amortized cost accounting to value all of their assets enabling them to maintain a constant value of a share of a fund. The CNAV model differs from other kinds of funds which values fluctuate with the value of the underlying assets ("Variable Net Asset Value") VNAV and makes CNAV very similar to bank deposits. In particular, in France (representing 33% of the assets managed in Europe) and in Spain this kind of MMFs named VNAV, are offered and valued at a market price.

Both CNAV and VNAV are exposed to runs since these funds are subject to market risks and MMFs have limited liquidity to pay shares back. However for CNAV rounding the NAV to a fixed value, as stated before, concentrates losses in remaining holders in the event of an exacerbated holders' run.

Losses of principal, which are known as "*breaking the buck*", have been historically rare, but justify the need to consider complementary valuation criteria of this kind of investments

The application of MMF valuation criteria shall be aimed at the reduction of the uncertainty linked to the expectation of changes in the valuation of the funds, as a consequence of quotations or market values below accounting values requiring the action of the managers of the fund (sale of assets previous to their maturity; shorten maturity fund, etc). These actions lead to uncertainty and incentive investors to redeem their shares.

The use of VNAV avoids the perception that MMFs are free of risk. Regulate to keep NAV stable, generates an unreal certainty in relation to such investment instruments that can increase the massive runs in case of adverse behaviours in their valuation.

Changing to a VNAV model, avoiding the use of CNAV or the amortized cost model, facilitates a higher level of transparency to the investors limiting their expectations before the behaviour of fund and, therefore, avoiding the massive runs before negative behaviours of the market. That is, using market values increases volatility in an environment of increased transparency about the reality of this kind of funds and its investments (question 12). Using VNAV certainly will pose problems in the cash management area to those entities not able to invest in assets valued under their initial accounting value (that is, with loss expectations), which will negatively affect the trading volume of this kind of instruments.

Notwithstanding we must be aware that "*breaking the buck*" situations are exceptional throughout history and posing changes to the valuation criteria in the current uncertainty scenario might not be entirely desirable.

In addition, using the Constant net Value or at amortized cost of the instruments in which Monetary Funds invest is acceptable if there are appropriate guarantees. In this regard the provisions of ESMA should be taken into account.

Firstly in the document (CESR/10-049) on the common definition of European Monetary Funds, ESMA distinguishes two categories: short-term Monetary Fund and Monetary Fund. Only short-term Monetary Fund, subject to stricter rules in terms of credit quality of investments, maturities of the investment portfolio as well as average

term and maturity of the portfolio, are allowed to be valued at a constant net asset value

On the other hand, in CESR's Guidelines Concerning Eligible Assets For Investment By UCITS (CESR/07-044b),ESMA considers that the following UCITS or IMM usually met the principles to a valuation at an amortized cost:

- MMI with a residual maturity of less than three months and with no specific sensitivity to market parameters, including credit risk;.
- UCITS investing solely in high-quality instruments with as a general rule a maturity or residual maturity of at most 397 days or regular yield adjustments in line with the maturities mentioned before and with a weighted average maturity of 60 days. The high quality requirement should be appropriately controlled considering the credit risk and the final term of the instrument

UCITS must ensure that the use of amortized cost will not result in any material discrepancy between the market value of the instruments in the fund and the value calculated following the amortization method, both at the individual instrument level and at the UCIT level. The Fund must regularly calculate both amounts, the market value of its portfolio and the amortized cost and take the necessary actions if any discrepancy is significant.

3.- Conclusion[5]

As a conclusion, it should be highlighted that the review of the current situation of the MMFs in this consultation report is mainly focused in two possible regulation approaches:

a. To require/stimulate moving to a Variable Net Asset Value VNAV
b. To state new capital and liquidity requirements of MMF which allow keep offering to investors a Constant Net Asset Value (CNAV)

And/if there are alternative approaches

As it is noted in other parts of this document, the regulation of the MMF in **Spain** (Monetary Funds and Short Term Monetary Funds) requires valuation at **market prices (VNAV)[6].** These funds are characterized by the absence of exposure to equity and to currency and commodity risks. They are regulated by the legislation on Collective Investment Institutions (basically RD 1309/2005 of 4 November 2007 approving the regulation of the Law 35/2003 of 4 November 2003 of Collective Investment Institutions which has been amended by several further decrees and particularly by Circular 1/2009 of 4 February 2009 of the CNMV on the categories of Collective Investment Institutions by its investment vocation. This last one was amended by Circular 3/2011 of 9 June 2009 of CNMV. This legislation is the transposition of the EU legislation on Money Market Instruments into the Spanish law.

The main impeller of the reform to VNAV models is the current USA Government based on different academic studies[7], which conclude that although measures to maintain the security of the MMFs, the introduction of substantial reforms, as for instance would be the change to a VNAV model, could destabilize a sector which, even

[5] Conclusion prepared by the rapporteur
[6] From an accounting point of view investments in funds are classified as financial assets at fair value with changes in profit and loss or, if not eligible for this classification, as financial assets available for sale.
[7] See for instance: "Reducing Systemic Risk: The Role of Money Market Mutual Funds as Substitutes for Federally Insured Bank Deposits", by Jonathan R. Macey. Yale Law Schol. John M.Olin Center for Studies in Law, Economics and Public Policy. Research Paper No.422

during the current financial crisis, has remained very stable[8], because in their opinion the strength and singularity of the MMF require to determine their net asset value (NAV) by a calculation based on the amortized cost. These studies also note that the destabilization of the NAV could affect the mutual funds sector, the commercial paper and "repos" market as well as to put other capital markets in risk

Other recent studies[9], based on results of surveys carried out among cash management directors of North American companies, conclude that corporate, governmental and institutional investors would negatively respond to the proposals of reform, the most important of which would be changing to a variable NAV. Furthermore, an overwhelming majority of the cash management directors would reduce or even stop using this kind of instruments.

Finally it is also remarkable the release made by, some SEC members on May 11 with regard to this IOSCO consultation report, where it is stated that the majority of the Commission expressed their unequivocal opinion that they must oppose to the publication of the Consultation Report and that representatives of the Commission should urge IOSCO to withdraw it and make further analysis[10].

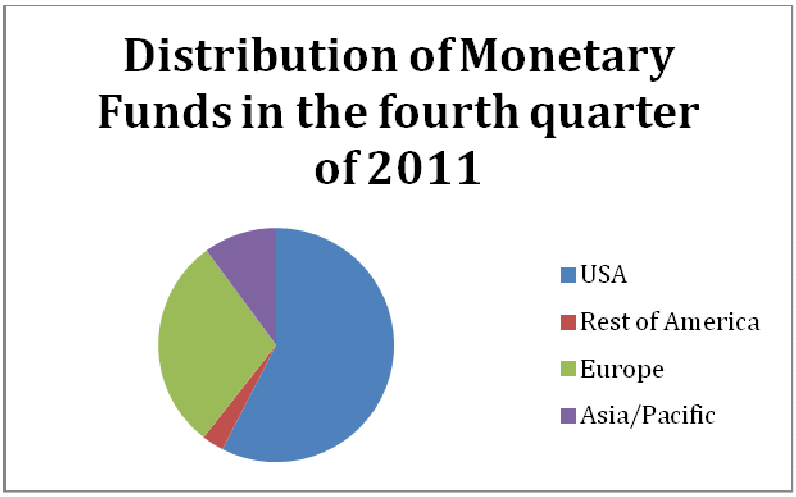
It should be noted that, although Monetary Funds are very important in the USA, because of their amount, this is not the case in Europe where the amount (distributed among the different EU countries) is a half that in USA In the particular case of Ireland and Luxemburg (which account for the 55% of the monetary assets in Europe) since they are transnational distribution centres, investors are located in all European countries. As a consequence, at least in Europe, Monetary Funds do not amount as to be a systemic risk.

	Net equity in millions of euros Fourth quarter of 2011
USA	2.080.085
Rest of America	118.515
France	347.584
Ireland	281.974
Luxemburg	299.473
Rest of Europe	124.037
Asia/Pacific	352.999
Africa	24.166
TOTAL	**3.628.833**

[8] In the 40 years of history of the MMF the number of "breaking the buck" situations is irrelevant.

[9] See "Money Market Fund Regulations: The Voice of the Treasurer", study commissioned to the Treasury Strategies by Investment Company Institute. April 2012

[10] http://www.sec.gov/news/speech/2012/spch051112laatapdmg.pdf



The differences between the use of CNAV and VNAV as stated in the document and in particular:

- The fact that the use of CNAV concentrate losses in remaining participants
- The perception of lower risk by the participant in MMF which can exacerbate the effect of massive runs
- The higher transparency provided by VNAV method

Lead us to suggest IOSCO to adopt the VNAV at global level.

On the other hand another document, as the one published by the "Group of thirteen"[11] includes two interesting recommendations with regard to the money market funds

1.-To reorganize those funds wishing to continue to offer a commitment to maintain a stable net asset value, to special-purpose banks with the corresponding regulation and supervision and government security.

2.- The remaining funds should only offer conservative investment options with moderate gains and relatively low risks. These funds should not use the amortized cost method because their net value may fluctuate

Which could also be taken into consideration.

[11] "Reforma financiera: Un marco para la estabilidad financiera". Comité de Dirección del Grupo de los Treinta. January 2009. Documents are available at http://www.group30.org/members.shtml

MMF definition/*IOSCO Question*

Although there is no globally accepted definition, MMFs can be defined as an investment fund that has the objective to provide investors with preservation of capital and daily liquidity, and that seeks to achieve that objective by investing in a diversified portfolio of high-quality, low duration fixed-income instruments.

MMFs usually invest in high-quality financial instruments and short term debt as for instance commercial paper, bank certificates of deposit and repurchase agreements and generally pay dividends that reflect prevailing short-term interest rates. MMFs' history of providing daily liquidity and principal preservation have played a significant role in differentiating MMFs from other CIS and have facilitated the use of MMFs as important cash management vehicle

The products covered by this report are investment funds marketed as "money market funds" [12]as well as collective investment schemes (CIS) which use close terminologies for their marketing (e.g., "cash" or "liquid" funds) or which are presented to investors and potential investors as having similar investment objectives even though they are labeled differently. This definition is not intended to cover non-MMFs (e.g. short-term bond funds) but is intended to be broad enough to cover products that seek to arbitrage around money market fund regulation in certain jurisdictions. MMFs are not homogeneous and as such demonstrate a range of characteristics dependent on their structure, which is reflected in the regulatory approach adopted by different jurisdictions[13].

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?

3. Systemic Risk Analysis

3.1. Systemic importance of money market funds and key vulnerabilities

3.1.1. Susceptibility to runs

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?

3.1.2. Importance in short-term funding and contagion effects

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

[12] In Spain, Monetary Funds and Short term Monetary funds regulated in Circular 1/2009 of CNMV according to the text after the amendment by Circular 3/2011 de la CNMV, should be considered in the general classification of MMF

[13] In the case of Spain investment should be in monetary market instruments, deposits that meet certain requirements and certain monetary IIC. They are characterized by the absence of exposure to equities, currency and commodity risks. The average term of its portfolio is equal to or less than 60 days for short-term Monetary Funds and equal to or less than six months for Monetary Funds. The average maturity of the portfolio is equal to or less than 120 days for short-term Monetary Funds and equal to or less than 12 months for Monetary Funds. UCITS can only invest in assets with short-term credit rating of at least A2 (or equivalent) and funds may only invest further in sovereign debt with a minimum BBB credit rating

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?

3.1.3. Links with sponsors

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?

3.1.4. Importance for investors

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?

3.2. Money market funds are specific collective investment schemes

3.2.1. Money market funds vs. bank deposits

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

3.2.2. Differences and similarities between constant NAV and variable NAV funds

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?

3.2.3. Importance of ratings in the MMF industry

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?

3.2.4. Role of MMFs in repo markets

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?

3.3. Other factors to consider

- The current environment of low interest rates and its impact on the performance of money market funds;
- the impact of recent regulatory reforms in Europe (guidelines issued by the Committee of European Securities Regulators (CESR), now replaced by the

European Securities Markets Authority (ESMA)) and in the United States (changes to Rule 2a-7 adopted by the US S.E.C.) on MMFs' asset allocation;

- concentration trends in the industry of MMFs;
- changes in banks' and other issuers' short-term funding needs and impact of potential changes to bank's capital requirements;
- recent and on-going reforms in the tri-party repo market.

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?

3.4. Preliminary conclusions and implications for policy options

1) Although important reforms have already been adopted and implemented to address some of the shortcomings identified during the crisis, several areas of risk remain; notably, MMFs must now comply with strict criteria in terms of credit quality and liquidity management, thereby reducing their scope for credit, maturity or liquidity transformation, but are still vulnerable to runs, particularly in case of a credit event. Moreover, their importance and interconnectedness with the rest of the financial system make their safety paramout for financial stability at large

2) policy options will have to be carefully weighed in the context of their potential impact on financial stability and market functioning. Several important and complex issues will have to be considered, such as the impact on competition and diversity, moral hazard, impact on the short-term funding markets and other potential disruptive effects as well as regulatory obstacles and/or practical implementation challenges;

3) CNAV funds combine a set of characteristics which may increase their vulnerability to systemic risk; however, VNAV funds are not exempt from risks, more so when they use amortized cost accounting to value some or a large part of their assets. Several recommendations would therefore be relevant for both types of funds;

4) a range of policy options can be considered, as the rest of the document will discuss. Certain options are inspired from banking regulation whereas, others rely more on traditional securities markets' regulatory tools. Ultimately, the main question is whether regulators want to clarify the appropriate requirements currently applicable to MMFs and mark more clearly their similarities with other collective investment schemes or to extend regulatory safeguards to reflect the hybrid nature of some MMFs;

5), the policy options could be used in isolation or combined with others. Combining certain policy options may mitigate some of the disadvantages of some of the proposed policy options.

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?

<u>Comment to paragraph:3</u>

Recommendations included, which are in line with for instance ESMA guidelines, are mentioned in the summary of relevant aspects of this document.

<u>Comment to paragraph 4.</u>

As to whether regulators wish to clarify the appropriate requirements currently applicable to MMFs; it should be noted that as IIC and Monetary Funds, they are already regulated by a very detailed and guaranteed regulation to avoid risks and that they are subject to strong supervision

Comment to paragraph 5 In any case such policy options should not be implemented if an agreed regulation would already been implemented as it occurs at EU level.

4. Policy Options

4.1. Section 1: Mandatory move to variable NAV and other structural alternatives

4.1.1. Move to variable NAV[14] : Prohibit the use of amortized cost valuation for any securities held by a MMF.

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

4.1.2. Other structural alternatives as a way to maintain constant NAV [15]

4.1.2.1 With NAV buffers

(a) *Market-funded NAV buffers — Subordinated shares*
(b) *Shareholder-funded NAV buffer — Version 1* Require MMFs to create a shareholder-funded NAV buffer
(c) *Shareholder-funded NAV buffer — Version 2* Require MMF shareholders to purchase a certain amount of capital securities as a condition of investment in the fund's constant value shares
(d) *Sponsor-funded NAV buffer* Require MMF sponsors to provide financial support for the funds that the sponsors implicitly assume

Question 13: What would be the main effects of establishing a NAV-buffer? What would be the most practical ways to implement such buffers? Should various forms of NAV-buffers be allowed or should regulators favor a single option? What would be a realistic size of the NAV-buffer and what would be the impact in terms of costs for running MMFs? In the case of subordinated shares, could the option be seen as creating a securitization position, with associated requirements in terms of retention?

4.1.2.2 With insurance Require private insurance to resolve short-term cash shortages

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?

4.1.2.3 With a conversion to Special Purpose Banks Require bank-like regulation for MMFs

[14] VNAV: Variable Net Asset Value
[15] CNAV: Constant Net Asset Value

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?

4.1.2.4 With the establishment of two-tier system(s)

(a) Enhanced protection for CNAV funds. Permit both VNAV and CNAV funds with certain risk limiting conditions.

(b) Constant NAV MMFs reserved for either only retail or only institutional investors. Permit both VNAV and CNAV funds, but reserve CNAV MMFs for either only retail or only institutional investors.

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?

4.2 Section 2: MMF valuation and pricing framework

4.2.1. General principle of marked-to-market valuation

Question 19: What are the main benefits and drawbacks of imposing the use of marked-to-market accounting for all the instruments held by MMFs? What is the availability of market prices for securities commonly held by money market funds? Are there situations where this general principle could not be applied?

4.2.2 Exceptions to marked-to-market general principle

4.2.2.1 Fair value/marked-to-model

4.2.2.2 A secure and robust framework for the use of amortized cost. Restrict the use of amortized cost accounting by MMFs

Question 20: Should the use of amortized cost accounting be limited, and, if so, how? Are general restrictions on funds' WAM or WAL preferable? Are there practical impediments (e.g. availability of prices) to imposing stricter requirements on the use of amortized cost accounting than current existing regimes? What would be the potential effects on MMFs' investment allocation and short-term funding markets? What monitoring should be implemented? What conditions are advisable? In particular, please describe the rationale, feasibility and effects of limiting the residual maturity of instruments to [30-60-90-other] days. What materiality threshold could be proposed?

4.3 Section 3: Options regarding liquidity management

4.3.1. Portfolio liquidity

4.3.1.1 Global liquidity requirements Require money market funds to hold a certain amount of liquid assets and restrict the amount of illiquid assets

4.3.1.2 Know your shareholders Require MMFs to establish sound policies and procedures to "know their shareholders" and better anticipate cash outflows

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)?

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?

4.3.2 Liability/investor liquidity risk management

4.3.2.1 Redemption Restrictions

4.3.2.1.1 Liquidity fees Impose a liquidity fee based on certain triggers

Question 23: Would such a liquidity fee generate a pre-emptive run? If so, when and are there ways that pre-emptive run risk could be reduced? How would shareholders react to the liquidity fee? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm? Would MMF board directors be able to impose a liquidity restriction despite potential unpopularity with investors and competitive disadvantage imposed on the fund? At what level such a liquidity trigger should be set?

4.3.2.1.2 Minimum balance requirement .Impose a minimum balance requirement on MMFs

Question 24: How would shareholders react to a minimum balance requirement? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm?

4.3.2.2 Valuation at bid Allow MMFs to value their assets at bid price

Question 25: What are the benefits of using bid price for valuing the funds? Are there other options (such as anti-dilution levy) which could be explored to reduce shareholders' incentive to redeem?

4.3.2.3 Redemptions in-kind. Require redeeming shareholders to receive the corresponding cash and in-kind securities percentage corresponding to the MMF's portfolio composition at the date of the redemption request.

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)?

4.3.2.4 Gates. Require/permit MMFs to impose gates

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

4.3.3 Private emergency liquidity facility. Require an external liquidity facility to resolve short-term cash shortages

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?

4.3.4 Section 4: Options to address reliance on ratings

4.3.5 Remove references to ratings from MMF regulation. Remove reference to ratings from MMF regulation and consider alternative standard**s.**

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?

4.3.6 Improve the meaning of triple-A for rated MMFs. Encourage greater differentiation of ratings in the MMF population.

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

5. Conclusions and additional questions

To better inform the final recommendations in its report to FSB, IOSCO also asks the following.

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?

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?