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Subject: **IBFed comments on Money Market Fund Systemic Risk Analysis and Reform Options**

Dear Mr Ben Salem,

The International Banking Federation ('IBFed') is the representative body for national and international banking federations from leading financial nations around the world. Its membership includes the American Bankers Association, the Australian Bankers' Association, the Canadian Bankers Association, the European Banking Federation, the Japanese Bankers' Association, the China Banking Association, the Indian Banks' Association, the Korean Federation of Banks, the Assocation of Russian Banks and the Banking Association South Africa. This worldwide reach enables the Federation to function as the key international forum for considering legislative, regulatory and other issues of interest to the banking industry and to our customers.

Against the background of the consultative report prepared by IOSCO on "*Money Market Fund Systemic Risk Analysis and Reform Options*", the IBFed would like to share with you some brief reflections in the section below.

Specific Remarks

From a brief analysis of the consultation report, we note that the report appears to discuss the range of options that appeared in the U.S. *President's Working Group Report on Money Market Fund Reforms.*

Without prejudice to any comments we may make at a future date when we have had an opportunity to fully assess the report, the IBFed would state at this stage that it adamantly opposes any option that appeared to regulate money market funds or their products as banks or bank products, whether this takes the form of an insurance fund or treatment as special purpose banks. We do not believe that any such regulatory

scheme would ever impose the overall burden and costs that are attendant to existing bank regulatory regimes, and thus would unfairly alter the competitive landscape.

The consultation report itself outlines the pre-existing regulatory framework for MMFs in terms of operation and disclosure etc as well as the regulatory changes that have already been enacted since the start of the financial crisis. Many of the risks identified by the consultation report are therefore already mitigated.

In the United States, the Securities and Exchange Commission rapidly adopted substantial revisions to its MMF regulatory environment. Those changes, made in 2010 in the Commission's Rule 2a-7 under the Investment Company Act of 1940, are now under observation in implementation.

In Europe for example the activity of investment funds are regulated by the UCITS Directive or the AIFM Directive, depending on the legal regime under which they were incorporated. In the particular case of investment funds, current European Union legislation foresees specific mechanisms that mitigate the risk of possible redemption "*runs*". The redemption of units or shares issued by open investment funds (meaning, which have a variable number of issued units or shares) may only occur in specific timeframes. Further, analysis on national practices should be conducted and considered in any final policy recommendations. EU legislation establishes that national supervision entities should be empowered to suspend the redemption of units or shares issued by open investment funds, whenever such suspension is in the public interest or in the interest of the investment fund's participants, both in respect of UCITS and AIFM Funds, namely in:

- Article 84, paragraph 2 of the UCITS Directive; and
- Article 46, paragraph 2, subparagraph j) of the AIFM Directive.

In what regards closed end investment funds (fixed number of units or shares), the problem of "runs" will not exist, due to the fact that, in these cases, redemption is only possible when the duration of the fund expires.

Unnecessary and inappropriate policy responses could further stifle financial markets and impose additional burdens for investors. There is no telling what may happen to liquidity if quick and drastic measures are adopted without understanding the consequences. Inter-linkages need to be understood better between banks and money market funds etc. Sufficient consultation with industry stakeholders should be employed to mitigate this danger. Furthermore, rules must ultimately be calibrated with national legal systems.

Once again, we regret that we are unable to provide more extensive comments. Nevertheless, if you have any questions whatsoever about our initial observations; please do not hesitate to get in contact with me.

Yours sincerely,

Sally Scutt
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IBFed Financial Markets Working Group