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// ASSET MANAGEMENT & INVESTMENT FUNDS

Asset Management & Investment Funds Update

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ESMA Opinion on MMFR Review

On 16 February 2022, ESMA published its opinion on the review of the Money Market Fund Regulation (**MMFR**) (the **Opinion**). The Opinion, which will inform the Commission's review of the MMFR scheduled for later this year, takes account of feedback to ESMA's 2021 industry consultation along with review proposals outlined in the October 2021 FSB report and January 2022 ESRB Recommendation.

The Opinion, which is strongly influenced by MMF difficulties identified during the COVID crisis of March 2020, sets out MMFR reform proposals focussed on addressing liquidity-related issues and first-mover advantage issues applicable to CNAV MMFs.

ESMA suggested reforms include:

CNAV/LVNAV MMFs

- removing the possibility to use amortized costs for LVNAVs
- decoupling regulatory thresholds from suspensions/gates/redemption fees for LVNAV/CNAV

MMFs generally

- mandatory availability of at least one liquidity management tool (**LMT**) for all MMFs. ESMA recommends requiring each MMF have in place at least one type of LMT (anti-dilution levies (ADL), liquidity fees and/or swing pricing) and while use of such LMT would be at the discretion of the MMF manager, ESMA recommends setting down in a delegated act the circumstances under which LMTs must be used.
- amendments of the Daily liquidity assets ratios (DLA)/ Weekly liquidity assets ratios (WLA) of VNAV (and LVNAV) MMFs, as well as the pool of eligible assets (including public debt assets) which can be used to satisfy these liquidity ratios. With respect to VNAVs (both short-term and standard), the DLA and WLA requirements should be increased to 7.5%+X(VNAV)% / 15%+Y(VNAV)% respectively (as compared to the current 7.5%/15%) while leaving the option to managers to include a maximum proportion of public debt (of a maturity up to 190 days)) (Z(VNAV)%) in the computation of the WLA (similarly to what currently applies to LVNAV, according to Art. 24(1)(g)). In relation to public debt holding and while not recommending the mandatory holding of public debt for MMFs, ESMA suggests allowing MMFs include public debt assets (up to a certain percentage) in the pool of assets used to meet the WLA requirements.
- inclusion/reinforcement of the possibility to temporarily use liquidity buffers in times of stress. ESMA recommends that, in stressed market conditions, it should be possible for MMF managers to, on a time-limited basis, release a portion of each MMFR liquidity ratio. The conditions under which this would be permitted, and any potential quantification of the release should be specified in a delegated act.

Complementary / crisis preparedness reforms

- enhancement of MMF reporting requirements. ESMA recommends more frequent reporting (daily) in stress market conditions as well as an increase in the frequency of reporting in normal times from quarterly to monthly (for MMFs whose assets under management exceed EUR 100 000 000) and from annually to quarterly (for MMFs whose assets under management do not exceed EUR 100 000 000).
- enhancement of the MMF stress testing framework. ESMA recommends direct reporting from the MMF manager to ESMA, as well as national competent authorities, to facilitate ESMA's coordination role.
- clarification of the requirements on external support. ESMA does not recommend amendments to the MMFR ban on external support but suggests clarifications be made to reflect its July 2020 statement on external support.
- new disclosure requirements on ratings of MMFs. ESMA suggests making it mandatory for MMFs to disclose that they are rated, as well as the main features of that rating (especially the conditions under which the ratings are downgraded) with such disclosures only requiring to be updated in the event of material changes to the rating / rating methodology.

Next steps

The Opinion will now be sent to the Commission to inform its MMFR review which is due for completion by 21 July 2022.

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