Reply form for the Consultation Paper on

Draft technical advice, implementing technical standards and guidelines under the MMF Regulation

24 May 2017

European Securities and Markets Authority

Date: 24 May 2017

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in Consultation Paper on Draft technical advice, implementing technical standards and guidelines under the MMF Regulation (MMF), published on the ESMA website.

Instructions

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type <ESMA_QUESTION_MMF_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

Naming protocol

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA_MMF_NAMEOFCOMPANY_NAMEOFDOCUMENT.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA_MMF_XXXX_REPLYFORM or

ESMA_MMF_XXXX_ANNEX1

Deadline

Responses must reach us by **7 August 2017.**

All contributions should be submitted online at www.esma.europa.eu under the heading ‘Your input/Consultations’.

Publication of responses

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the headings 'Legal notice' and 'Data protection'.

General information about respondent

Name of the company / organisation	ASSOGESTIONI
Activity	Investment Services
Are you representing an association?	☒
Country/Region	Italy

Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_MMF_1>
Assogestioni[1] welcomes the opportunity to respond to ESMA draft technical advice, implementing technical standards and guidelines under the MMF Regulation.

We summarise below our general remarks on different topics covered by the ESMA's consultation.

- ***Credit quality assessment.*** The technical advice should not be prescriptive but be "principle-based". This would allow MMF managers to comply with the requirements by adapting their existing procedures rather than by developing new processes. For the same reason, we deem it desirable not to introduce the duty to develop a credit quality assessment based on a "scale of credit rating". As regards the meaning of material change that lead to a new assessment of the credit quality, it should be based on the material change of the criteria that the managers would take into account in their credit quality assessment methodology and not be linked to the risk factors of the stress scenarios.

- ***Guidelines on stress testing.*** We believe that guidelines should give high-level principles on most criteria and clear but not mandatory provisions on thresholds and limits. The draft version of the guidelines is largely coherent with a principle-based approach. Stress tests should point out whether any vulnerability has to be reported and they could lead to the elaboration of action plans. Should the guidelines be more stringent in requiring specific features of the stress tests, the out-put would not be valuable for the asset managers and it would only impose additional governance and administrative costs. We recommend that the stress test tool should be applied with the aim of checking potential vulnerabilities of a MMF, in a way that would limit governance and IT costs. The factors to stress as indicated in MMFR should be adapted as part of the internal risk management measurement of an asset manager and would be calibrated to a MMF. In this context, references to banking practice should be avoided.

- ***Reporting to Authorities.*** The reporting duties would impose new burdensome obligations to the most of MMFs. We therefore support ESMA's approach when requires information at a single asset level rather than an aggregate information, since it is more efficient for all stakeholders. Coherently, information that may be identified by ESMA through the ISIN code of the instruments or under other European reporting requirements (eg. EMIR and SFTR reporting requirements) should not be required again by ESMA. We think that the information collected through the AIFMD reporting could be a useful starting point from a technical point of view. In any case, it would be necessary to finalise the analysis based on what is specifically required by the MMFR and in light of the MMF features.

[1] Assogestioni is the trade body for Italian investment management industry and represents the interests of members who manage funds and discretionary mandates around € 2,000 billion (as of June 2017).

- ***Reverse Repos.*** We appreciate ESMA's choice that is based on the diversification counterparty limit and considers the primary risk with the counterparty (and only later with the collateral). Therefore, we support the provision of different liquidity requirements depending on the risk of default of the counterparties. We recommend a more flexible approach to determine the haircut policy. This could allow asset managers to apply appropriate haircuts not only for collateral in reverse repo transactions for MMF but more in general also for other funds they managed. Finally, it should be noted that EMIR requirements on risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty also apply to MMF.

<ESMA_COMMENT_MMF_1>

1. **: Do you agree that the abovementioned references to EU/US standards are relevant in the context of the issuance by ESMA of technical advice on quantitative and qualitative liquidity and credit quality requirements applicable to assets received as part of a reverse repurchase agreement in the context of the MMF Regulation? Do you identify other pieces of national/EU/International law that would be relevant in view of the work on this part of the advice?**

<ESMA_QUESTION_MMF_1>
From our point of view, ESMA should focus on the EU market practices that refer directly or indirectly to asset managers. US practices are not relevant as the US regulation of MMF could be different from the European one. Similarly, caution should be exercised when using bank regulation and EBA's approach. We think that the ESMA guidelines on ETFs and other UCITS (ESMA/2012/832) may be relevant in this context.
<ESMA_QUESTION_MMF_1>

2. **: Which of the options described above regarding credit quality and liquidity requirements would you favour?**

<ESMA_QUESTION_MMF_2>
As regards the credit quality requirements referring to the assets in article 15(6)(a) of the MMFR we support option a)[2]. This option reinforce the internal consistency of MMFR since asset managers could use the same approach on credit quality assessment used in MMF Regulation for all its assets.

For the liquidity requirements referring to the assets in article 15(6) of the MMFR we support option a)[3] instead of option b). Option a) is preferable as it considers both the diversification counterparty limit and the primary risk in a reverse repo that firstly lies with the counterparty (and only later with the collateral). Therefore, we support the provision of different liquidity requirements depending on the risk of default of each counterparty.
<ESMA_QUESTION_MMF_2>

3. **: With respect to option a), do you think the haircut policy should be determined as suggested, or should there be more flexibility given to the manager on this determination? Do you think that the decision of equivalence vis a vis third countries mentioned in this option should relate to the one mentioned in Article 114 (107 in the case of credit institutions) of CRR?**

<ESMA_QUESTION_MMF_3>
There are some merits in the proposed haircut policy (i.e. minimum haircut figures determined by the Basel Committee that are standard market practice). As a matter of fact, a standardised haircut policy offers operational advantages and legal certainty. However, we do not support the current proposal since it could create some side-effects. As overcollateralization is a measure to protect investors and haircuts should be revised on a regular basis, we suggest that the haircut policy should be a credit decision made by the manager in relation to the relevant counterparty and the type of collateral. Detailed features or cross-references should not be included in the technical advice. A more flexible approach could allow asset managers to apply appropriate haircuts not only for collateral in reverse repo transaction under MMFR but generally for all their collateralisation for OTC financial derivative transactions and efficient portfolio management techniques. EMIR requirements on risk-mitigation techniques for OTC derivatives contracts not cleared

[2] As referred to in paragraph 93 (page 25 of the Consultation Paper) and in article 1 of the draft technical advice (page 97 of the Consultation Paper).
[3] As referred to in paragraph 94 on pages 26 and 27 of the ESMA consultation.

by a central counterparty also apply to MMF while ESMA ETF UCITS Guidelines are nor relevant for MMF.

As regards the decision of equivalence *vis a vis* third countries, we would see merit in clarifying the meaning of "relevant Union law". In particular, the reference made in articles 3 and 4 of the draft technical advice (pages 97 and 98 of the Consultation Paper) is not clear. In our understanding, article 4 is to be applied to counterparties different from that one referred to in article 3, but the different wording used in the two article may generate confusion.
<ESMA_QUESTION_MMF_3>

4. : With respect to option b) on liquidity requirements, do you think that requiring assets convertible to cash in one business day or less is appropriate? Do you think this requirement should be more detailed and refer to trade date or settlement date, for example? With respect to that same option b), how do you think that the criteria mentioned in this option could be defined in more detail, and how could quantitative indicators be introduced? Do you think all the criteria mentioned in Article 2(3) of this option b) are relevant? Under this option, when the liquidity assessment of the manager is that the assets would no longer be liquid assets, the manager shall take immediately any appropriate action including the replacement of the collateral with another asset that would be qualified as liquid assets. Do you think that the replacement of the collateral could be carried out overnight?

<ESMA_QUESTION_MMF_4>
As explained in our previous Answer no. 2, we do not support option b). In any case, we have the following comments.

Option b) stated "*the liquid asset shall be assets convertible to cash in one business day or less without the conversion to cash having impact on the market value of the investment other than marginal one*".

This definition requires clarification. As ESMA noted, the meaning of "*convert to cash*" should be clarified where it refers to the trade date or settlement date. The settlement period for securities traded on secondary markets is generally at "T+2" (trade date plus two business days). The settlement date of assets is a consequence of the trade date. Therefore, in our understanding the expression "*convert to cash*" refers to the trade date. Thus said, it is not clear whether the maturity of a reverse repo is 2 days or, as we imagine, it could be longer. Assets could be still considered liquid if it takes, for example, few days to convert them into cash. The daily and weekly liquidity buckets under MMFR (articles 24 and 25) set different provisions on how the liquidity of an asset should be considered. Moreover, recital 38 indicates to take into consideration the possibility for the manager to terminate a contract on a short term basis.

As regards the criteria mentioned in Article 2(3) for the assessment of the liquidity of the assets[4] we suggest that ESMA clarify that the criteria are indicative and not prescriptive.

Therefore, we propose the following wording for article 2(3) of the draft technical advice (page 99 of the Consultation Paper): "*For the assessment of the liquidity of the assets referred to in Article 15(6) of the MMF regulation, the manager of a MMF shall use a number of indicators, ~~**including but not limited to**~~ **such as**: […]*"

[4] The bid-ask spreads, the size of the issue, the frequency of trades or quotes, the average daily trading volume, the size of collateral position […], the issuance date and residual maturity, the existence of an active market […], the number of multilateral trading facilities […], the volatility of trading prices for the assets, the credit quality for the issuer.

<ESMA_QUESTION_MMF_4>

5. : What would be in your view the consequences in terms of costs of the chosen option, and of the other options mentioned above? Do you agree with reasoning mention in the CBA (annex III) in relation to the possible costs and benefits of the options as regards the abovementioned credit quality and liquidity requirements? Which other costs or benefits would you consider in this context?

<ESMA_QUESTION_MMF_5>
We agree with ESMA that option a) on the liquidity requirements will not probably lead to significant additional costs. Regarding option b), we disagree with ESMA, as operational difficulties may arise with the ongoing monitoring of all the listed criteria. The costs of the proposed liquidity requirements appear not to be justified by an increased investors' protection compared to option a) which relies on the quality of the counterparty and encourages the choice of regulated entities.
<ESMA_QUESTION_MMF_5>

6. : Do you agree that the abovementioned references to EU and US standards are relevant in the context of the issuance by ESMA of technical advice on credit quality assessment under the requirements of the MMF Regulation? Do you identify other pieces of national/EU/International law that would be relevant in view of the work on ESMA technical advice on credit quality assessment under the requirements of the MMF Regulation?

<ESMA_QUESTION_MMF_6>
In our view, the most relevant reference is the technical advice published by ESMA on reducing sole and mechanistic reliance on external credit ratings (2015/1471). We think that it could be useful to explicit the same overriding principle expressed in CRD. As regards CRA, the reference should be proportionate and principle-based, since asset managers would assess credit quality only for an internal use with the aim to contribute to investment decision and they should apply a prudent assessment procedure. For example, a ranking of the quality assessment foreseen in CRA is not necessary nor requested in MMFR.
<ESMA_QUESTION_MMF_6>

7. : Do you agree with the proposed option on each of the requirements mentioned in Article 22 of the MMF Regulation? If not, could you specify which existing regulatory framework would you suggest as a basis for the work on the technical advice related to Article 22 of the MMF Regulation?

<ESMA_QUESTION_MMF_7>
Regarding the wording of the draft technical advice under article 22 (from page 100 of the Consultation Paper), please refer to our comments and redrafting suggestions below.

- Article 22 (a) criteria for the validation of the credit quality assessment methodology

Article 1 Ensuring that the credit quality methodology is subject to validation"
Article 1(4) refers to circumstances where limited quantitative evidence is available, so in this case the reference to "relevant quantitative criteria" should be deleted. Therefore, we propose the following wording to article 1(4)(b) on page 100: " *the credit quality assessment methodology is supported by sufficient* ~~***relevant quantitative and***~~ *qualitative criteria*".

Article 3 Ensuring that the credit quality assessment methodology is systematic

The reference to a "scale of credit rating" in article 3 should be deleted. Such a reference is suitable for CRA where external and rigorous rating should be given, while for asset managers the aim is different and, therefore, a proportional approach should be used. Furthermore, the MMFR does not refer to a scale, but only to the output of the validation process (favourable, not favourable, although not applicable in some circumstances). The internal process should prevail and different procedures should be developed by asset managers. Putting in place a specific process for MMFs to define their own scale could be costly with little, if any, corresponding benefits.

Therefore, we propose the following wording for article 3(3) on page 101: "*The manager of a MMF shall use a credit quality assessment methodology which ex-ante* ~~***defines its own scale of credit rating and***~~ *identifies the situations where the assessment is deemed to be favourable.*"

- Article 22 (c) criteria for establishing qualitative indicators on the issuer of the instruments

Article 22 of the MMFR empowers the Commission to adopt a delegated act specifying "*the criteria for establishing qualitative indicators on the issuer of the instruments*" in which the MMF invests. Since the mandate refers to the "issuer of the instruments" rather than to "instruments", in order to be coherent with L1 mandate, all references to instruments in articles 2 and 3 in the draft technical advice should be deleted.

As regards the specific criteria, we suggest:

- including in article 1 the reference to credit rating or rating outlook (where relevant) as an additional element for the evaluation of the credit risk of an instrument other than an issuer. While it should be no mechanistic over-reliance on external ratings, asset managers should be able to use rating as a complement to their own assessment of the quality of eligible assets. The decision whether or not to rely on rating is left to asset manager so the use of this criteria should be optional;
- deleting in article 2(b) the "degree of volume and liquidity" given that the quality of an issuer (or even of its instruments) does not depend on its liquidity. In any case, the liquidity of the instruments is taken into account under MMFR's liquidity requirements;
- deleting in article 2(d) the reference to credit rating or rating outlook since it is generally suitable for an instrument and not for an issuer. This element should be included in article 1;
- deleting in article 3 the reference to instruments, because the element suits/refers to the issuer rather than the instruments. In our understanding the SEC approach used by ESMA applies only to security's issuer or guarantor (see para. 131 at page 37 of the Consultation Paper) and not to an instrument.

Therefore, we propose the following wording for Articles 1, 2 and 3 on page 102 and 103:

Article 1
Quantitative Criteria for Assessing Credit Quality
In order to establish the credit risk and relative risk of default of an issuer or instrument the manager of a MMF shall refer to a credit quality assessment methodology that incorporates a wide range of quantitative criteria, such as:
(a) Bond pricing information, including credit spreads and pricing of comparable fixed income instruments and related securities.
(b) Credit default-swap pricing information, including credit default-swap spreads for comparable instruments.
(c) Default statistics relating to the issuer or instrument;
(d) Financial indices relevant to the geographic location, industry sector or asset class of the issuer or instrument.

(e) Financial information relating to the issuer, including profitability ratios, interest coverage and leverage metrics.
(f) Analysis of the credit ratings or rating outlooks assigned by a credit rating agency registered with ESMA selected by the manager of a MMF as suited to the specific investment portfolio of the MMF

Article 2. Qualitative Criteria for Assessing Credit Quality
In order to establish qualitative indicators of the credit risk of an issuer ~~or instrument~~ the manager of a MMF shall refer to a credit quality assessment methodology that incorporates a wide range of qualitative criteria, such as:
(a) Analysis of any underlying assets, for exposures to securitisation this should include the credit risk of the issuer and credit risk of the underlying assets;
(b) Analysis of the relevant market(s)~~, including the degree of volume and liquidity~~;
~~(c) Analysis of any structural aspects of the relevant instruments, for structured finance instruments this should also include analysis of the inherent operational and counterparty risk of the structured finance instrument~~*;*
~~(d) Analysis of the credit ratings or rating outlooks assigned to the issuer or instrument by a credit rating agency registered with ESMA and selected by the manager of an MMF as suited to the specific investment portfolio of the MMF~~*.*
(e) Securities-related research relating to the issuer or market sector;

Article 3. Aspects of an issuer ~~or instruments~~ to be assessed
In referring to both quantitative and qualitative criteria for establishing the credit quality of an issuer ~~and/or instrument~~ the manager of a MMF shall assess, to the extent possible, the following attributes of the issuer ~~and/or instrument~~:
*(a) Financial condition **of the issuer or the guarantor, as applicable**;*
*(b) Sources of liquidity **of the issuer or the guarantor, as applicable**;*
(c) Ability to react to future market-wide or issuer specific events including ability to repay debt in a highly adverse situation;
(d) Strength of the issuer's industry within the economy relative to economic trends and the issuer's competitive positon in its industry.

Article 22 (d) the meaning of material change

As ESMA said, we deem that a material change that could have an impact on the existing assessment of the instruments may relate to all the criteria that the managers take into account in their credit quality assessment methodology.

However, we do not support ESMA's position where, in our understanding, links the "material change" to the "*relevant quantitative or qualitative different criteria, to the risk factor of the stress scenarios, including those referred to in Article 28 of MMF Regulation*" (article 3 in the draft technical advice on page 105 of Consultation Paper). We believe that ESMA should be less prescriptive and should not include an example or references to specific articles of L1 or L2.

A principle-based approach should be followed, because asset managers need the appropriate level of discretion to determine the quantitative/qualitative meaning of material change of each criteria or attribute used, where relevant. A more flexible approach should be allowed, since the criteria that will be used by asset manager in the internal assessment, in line with L1 and proposed L2 measures, could be different. Moreover, also if the same attribute was used, the driving factors that influence the creditworthiness could change.

Furthermore, referring to the general risk factors of the stress scenario may not always be appropriate. Firstly, stress scenarios are made at portfolio level and not at issuer/instrument level. Secondly, they would take into account different factors not necessarily strictly related to the credit quality of a specific issuer and/or instrument. As an example, please consider the level of redemptions or the liquidity of portfolio assets. Changes in interest rates or in exchange rates might be material for the macro environment but not for a specific issuer.

Nevertheless, a clarification of the meaning of “material” linked to the stress scenario would be appreciated.

We support, indeed, and in line with recital 31 of MMFR, that in case an asset manager decides to use rating as a complement to its own assessment of the quality of eligible assets, there is a material change when it comes to the attention of the asset manager that the instrument is downgraded below the two highest short-term credit rating. This material change, like the others, would not per se automatically lead to a new result of the credit quality assessment, instead, it would trigger a new credit quality assessment. We suggest some amendments to the text in order to better clarify that the material change criteria do not intend to introduce any obligation to integrate CRAs rating since, in our understanding no obligation comes from L1.

Therefore, we propose the following wording for Article 5 on page 104:

Article 5
Material change
1.The manager of a MMF shall undertake a new credit quality assessment whenever there is a material change that could have an impact on the existing assessment of the instrument.
2. The material change that could have an impact on the existing assessment of the instrument may relate to all the ***relevant*** *criteria that the manager of the MMF takes into account in its credit quality assessement methodology* ~~***including those which are referred to in Articles 1 to 3, such as:***~~

- ~~***Bond pricing information, including credit spreads and pricing of comparable fixed income instruments and related securities;***~~
- ~~***Credit default-swap pricing information, including credit default-swap spreads for comparable instruments;***~~
- ~~***Default statistics relating to the issuer or instrument;***~~
- ~~***Financial indices relevant to the geographic location, industry sector or asset class of the issuer or instrument;***~~
- ~~***Analysis of underlying assets (particularly for structured finance instruments);***~~
- ~~***Analysis of the relevant market(s), including the degree of volume and liquidity;***~~
- ~~***Analysis of the structural aspects of the relevant instruments;***~~
- ~~***Securities-related research;***~~
- ~~***Financial condition of the issuer;***~~
- ~~***Sources of liquidity of the issuer;***~~
- ~~***Ability of the issuer to react to future market-wide or issuer specific events including ability to repay debt in a highly adverse situation;***~~
- ~~***Strength of the issuer's industry within the economy relative to economic trends and the issuer's competitive positon in its industry;***~~
- ~~***Analysis of the credit ratings69 or rating outlooks70 assigned to the issuer or instrument by such credit rating agency/ies selected by the manager of the MMF as suited to the specific investment portfolio of the MMF.***~~

3. What should be meant by 'material change' for these different criteria shall ***refer*** ~~***relate***~~ *in particular, for the relevant quantitative or qualitative different criteria, to the* ***prudential assessment of the manager of a MMF. To that end, the manager of a MMF should be able to establish an internal procedure that could take into account, where relevant*** *the risk factors of the stress test scenarios, including those referred to in Article 28 of the MMF Regulation.*
4. ***In case an asset manager decides to use*** ~~***With respect to the criterion on the analysis of***~~ *the credit ratings or rating outlooks assigned to the issuer or instrument,* ***as a complement to his own assessment of the quality of eligible assets,*** *this material change should also relate to the downgrade of a money market instrument, securitisation or ABCP below the two highest short-*

term credit ratings provided by any credit rating agency regulated and certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council. To that end, the manager of a MMF should be able to establish an internal procedure for the selection of credit rating agencies suited to the specific investment portfolio of the MMF and for determining the frequency at which the MMF should monitor the ratings of those agencies. However the extent to which the corresponding new assessment mentioned in paragraph 1 would imply that the assessment in itself of the credit quality of the asset is modified will depend on the other abovementioned criteria that the manager of the MMF takes into account in its credit quality assessement methodology. The abovementioned downgrading should indeed be balanced against these other abovementioned criteria that the manager of the MMF takes into account in its credit quality assessement methodology.
5. The material change that could have an impact on the existing assessment of the instrument may also relate to the revision of the credit quality assessment methodology.
<ESMA_QUESTION_MMF_7>

8. : In your view, what would be the consequences (including operational ones) of the level of detail and prescription suggested above in the proposed technical advice on credit quality assessment under the MMF Regulation (which would be broadly similar as in the delegated Regulation on the assessment of compliance of credit rating methodologies (447/2012), and in the technical advice on reducing sole and mechanistic reliance on external credit ratings (2015/1471))?

<ESMA_QUESTION_MMF_8>
We agree with ESMA's remarks that standardised prescriptive regulation leads to uniformity of behaviour, which consequently increases systemic risk. The variety of views from market participants is a key pillar of the functioning of financial market and it is a key role in the management of investment funds. We support ESMA's position, which, having started with the assessment of different approaches adopted by the various regulators, ended up with an approach that is not being too prescriptive, thus allowing asset managers to hold different views on the same issuer.
<ESMA_QUESTION_MMF_8>

9. : What would be in your view the consequences in terms of costs of the chosen options described above in relation to the requirements included in the technical advice under Article 22 of the MMF Regulation? Do you agree with the assessment of costs and benefits mentioned in the CBA (annex III) on the technical advice under Article 22 of the MMF Regulation? If not, please explain why and provide any available quantitative data that the proposal would imply.

<ESMA_QUESTION_MMF_9>
The closer the options chosen by ESMA are to the current market practice the less costly they will be, while a standardised and more prescriptive approach would be more costly, unnecessary and it could potentially reduce the range of views of markets players: this in turn could lead to herding behaviours and increased systemic risk.
<ESMA_QUESTION_MMF_9>

10. : Do you think other type of information should be considered as "characteristics" of the MMF?

<ESMA_QUESTION_MMF_10>
Please find below our comments concerning the items included in the Annex I to the draft ITS. General comments on the reporting are included in answer to Q15.

- <u>Information on the asset held in the portfolio - credit quality</u>

In the field A.6.25 "*whether the outcome of the internal credit assessment procedure is favourable/unfavorable*" (A.6.25) we suggest adding a further field "not applicable" to be used when asset managers apply article 10(3) of MMFR.

Since we do not support a scale for the credit assessment, we request that the fields that require to quantify such outcome namely "Outcome of the internal credit assessment procedure" (A.6.26 and A.6.56) are deleted (please refer also to our answers to Q3 and Q7).

- Information on stress test (please refer to our answer to Q14)

- Information on portfolio liquidity profile

For portfolio liquidity profile the following data are foreseen: daily liquidity buffer (A.4.7), weekly liquidity buffer (A.4.8), portfolio liquidity profile (A.4.9) and value of unencumbered cash (A.4.10).

Since information on daily and weekly buckets is requested together with the value of encumbered cash (for this field please see also our response to Q13) we wonder if information on the portfolio liquidity profile is really necessary.

The portfolio liquidity profile as referred to AIFMD reporting, even if the range of the time periods are different, seems to be too conservative and not appropriate for MMF. Para 108 of the AIFMD Guidelines provides that "*each investment should be assigned to one period only and such assignment should be based on the shortest period during which such a position could reasonably be liquidated at or near its carrying value.*" Under AIFMD reporting each investment should be assigned only to one period, even if AIFs may liquidate a part of their position earlier. In this case, if a MMF manager assumes not to liquidate listed securities for more than a certain percentage of their trading volume, it is possible that due to the amount hold by the MMF the shortest period in which the entire position can be liquidated may be 6 days. Even if every day part of the entire position is converted into cash, in the reporting table the entire position should be indicated in the bucket "4-7 days" and nothing in the buckets "1 days or less" and "2-3 days".

Furthermore, the meaning of buckets "1 days or less" and "2-3 days" should be clarified. In our understanding, those items refer to trade date and not settlement date, asking to convert assets into cash in one business day, or less, is unrealistic due to the market convention for settlement. Consequently, for the reporting of the portfolio liquidity profile, MMF should not take into account the time delay for having the proceeds of the sale available on a cash account. Differently from AIF, the portfolio of MMF has no lock-up or notice period.

Therefore, we suggest discharging information on the portfolio liquidity profile or adapting it to MMF characteristics.

- Information on yield (please refer to our answer to Q11)
- Information on type and characteristics:

    - "Investment horizon of the MMF" (A.1.16), we suggest some amendments for the "recommend holding period". We deem that this information should be given only where applicable, therefore, the final template should allow MMF to leave this field blank;
    - Information on benchmarks (A.1.13. A.1.14, A.1.15), where this information is strictly needed, we suggest clarifying the use of benchmarks to which the reporting refers. In our understanding, this is the benchmark referred to in the investment objectives and policies of a fund, where relevant. In addition, we wonder whether it would be relevant for a MMF to collect information on the spread over the benchmark (A.1.15) such as, for example, in case of "Benchmark + x%" the "x%". In any case, we suggest changing the name of the item from "target return of the MMF" to "Spread over the benchmark", so to be consistent with the clarification included in the template and including an exemplification;

- Information on preceding fund or liquidation (A.3.17 – A.3.22): we suggest clarifying the difference between the mergers from the case of acquisition by another fund. Since the items requested for the two different cases are identical, the same information for both circumstances should be required in the last reporting of a merged MMF.

- <u>Information on the asset held in the portfolio – different from credit qualities</u>

  We support ESMA's approach, which requires information on the single asset rather than aggregation of information in different way, like in the AIFMD reporting, since it is more efficient for all stakeholders. Nevertheless, we suggest more caution in relation to the circumstances when the detailed information should be differentiated in different fields depending on their relevant eligibility characteristics (for example MMI eligible under article 17(7)(a), 17(7)(b), 18 (2)). Fields referring to the eligibility criteria seem burdensome and not strictly related to delegated mandate that requires information on the assets based on their type and characteristics and not on eligibility. Furthermore, with specific regard to repo, reverse repo and financial derivatives we suggest reducing the information requested and including only those fields not already foreseen in/derivable from other EU regulatory reporting requirements such as EMIR and SFTR reporting. With such an approach, we wonder if information on the market value of the exposure or collateral is still necessary.

  With regard to the different fields, please find herewith our specific comments:

  - Total value of assets (A.4.1 and A.4.2): the Consultation Paper stated that the calculation would be specified in the Guidelines. We suggest considering the total assets as indicated in the balance sheet of the MMF and not the total assets as defined in AIFMD framework, since under MMFR the use of derivatives and financing is not comparable.
  - Type of MMI, eligible securitisations and ABCP (A.6.1): for operational reasons we support only one possible field as ESMA suggested (i.e. "MMI under article 10"). Choosing between a list of possible MMI mentioned in MMFR should be avoided.
  - Price of MMI (A.6.18), accrued interest (A.6.20), Total clean market value (A.6.22): if "A.6.18" minus "A.6.20" give "A.6.22" we ask to exclude fields that could be derived from the other one.
  - Type of other assets (A.6.31). We request to include also "other liquid assets" that a MMF may hold in accordance with article 50(2) of Directive 2009/65/EC. In our understanding such assets should be classified with a specific item and not commingled with deposits.
  - The information requested in the following fields may be derived from other data sources, once ISIN code of the instruments is provided. We suggest deleting the field "Provide the next interest rate reset date" and also both the items A.6.27 and A.6.57;
  - The reporting should be limited to the master data, the different eligibility criteria of instruments could be identified by ESMA through the ISIN. Therefore, we suggest deleting these items.:
    - whether the MMI [...] is one of the assets in article 18(2) of MMFR (A.6.28),
    - whether the MMI is one of the assets mentioned in article 17(7(a)) of MMR (A.6.29 and A.6.30),
    - in the context of reverse repurchase agreements, whether there are any assets as defined in Article 15(6) of the MMFR that were received by the MMF (A.6.63),
    - With respect to repurchase agreement, please indicate the amount of cash received by the MMF as part of repurchase agreements (as mentioned in Art 14(d) of the MMF Regulation) (A.6.67 and A.6.68)

- <u>Information on liabilities</u>
  - We suggest deleting the following fields derived from AIFMD reporting template as they not suits well for a MMF:

- o 3) What is the notice period required by investors for redemptions in days (report asset weighted notice period if multiple classes or shares or units) (A.7.7);
- o 4) What is the investor 'lock-up' period in days (report asset weighted notice period if multiple classes or shares or units) (A.7.8).

<ESMA_QUESTION_MMF_10>

11. : Do you agree with the proposed way of reporting the yield of the MMF? If not, could you indicate what would be the more appropriate way to report yield in your views? Do you think the 7-days gross yield should be reported for each week of the reporting period? If not, what should be the appropriate frequency of reporting on this item?[5] Do you think that the calendar year performance and yield could be calculated at (sub)fund level and at share class level? Which difficulties do you identify while doing so? At which frequency should it be reported?

<ESMA_QUESTION_MMF_11>
Many different indicators are proposed[6]. We suggest taking into account only those indicators that are significant:

- 7-days gross yield seems not relevant for a VNAV;
- YTM suits well for a buy and hold investment and not for a MMF. The yield to maturity at portfolio level used by SEC give raise also to some operational issues that should be clarified, since its calculation is affected by the convections adopted, such as the assumptions on securities with variable coupons. The year basis of calculation could be different, in EONIA market it is 360 and not 365. In case the MMF invests in other MMF, how should the yield be calculated? The look-through approach should be avoided. In any case, should this field be requested, this would be on gross basis and an average of the YTM's single securities.
- For "cumulative returns", it is not clear if gross or net returns should be given.

Thus said, for VNAV MMF we suggest taking the cumulative return YTD, 1 month (from the end of reporting period), 3 months (from the end of reporting period), 1 year (from the end of reporting period). The oldest historical information on the return of 3 years and 5 years may also be collected but they might be not meaningful for an MMF. In any case, it should be clarified whether the cumulative returns are on gross or net basis.

MMF reporting may be at share class level only if the information on yield could be different between share classes. Where information on yield is on net basis, it could be appropriate calculating the figure at share class level at each reporting frequency.
<ESMA_QUESTION_MMF_11>

12. : Which type of measure would you suggest using to report the quantified outcome of the credit assessment procedure?

<ESMA_QUESTION_MMF_12>
In the reporting only the outcome should be included, not the "quantified" outcome of the internal credit quality assessment procedure. Thus, in line with MMFR that does not refer to a scale, but only to the output of the validation process (favourable, not favourable as well not applicable in some circumstances).

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[5] in order in particular to build meaningful time series to be used for understanding the activity of a fund and for analysis purposes.

[6] 7-days gross yield of the MMF (A.4.11), 7-days gross yield of the different share classes (A.4.12), Yield to maturity (A.4.13), Yield to maturity of the different share classes (A.4.14), cumulative returns (A.4.15), Calendar year performance (net return) (A.4.16), Calendar year performance (net return) of the different share classes (A.4.17). Monthly portfolio volatility and monthly portfolio volatility of the shadow NAV (when applicable) (A.4.18).

The internal process should prevail and different processes should be developed by asset managers with possible different quantified outcomes. In any case, such outcomes would not be comparable. Putting in place a specific scale of outcomes, would request asset managers to change their own process into the one that could be defined. Thus with lead to undesired effects: a more prescriptive approach would not be proportional, it would be costly and may reduce the range of views of markets players.

Therefore, we do not agree on reporting quantified outcomes of the internal credit quality assessment procedure as could be requested in the fields A.6.26 and A.6.56 "Outcome of the internal credit assessment procedure". Delegated acts on article 37(2)(d)(i) seems also supportive of our view as they refer only to the outcome ("*the characteristics of each asset, such as name, country, issuer category, risk or maturity and the outcome of the internal credit quality assessment procedure*").
<ESMA_QUESTION_MMF_12>

13. **: With respect to reverse repurchase agreement, do you agree that the information requested is appropriate? With respect to repurchase agreements, do you think the value of cash received should be reported as a breakdown per investment purposes, i.e. liquidity management or investment in assets referred to in Article 15(6)? (given the information on the amount of cash received as part of repurchase agreements that is also requested). What should be the appropriate frequency of reporting on this information? Do you think the value of unencumbered cash should be reported as a breakdown per country where the bank account is located and currency? (given the information on deposits that is also requested)**

<ESMA_QUESTION_MMF_13>
With specific regard to reverse repo (and repo) we suggest reducing the information requested and including only those fields not already foreseen in /derivable from other EU regulatory reporting such as SFTR reporting. With such approach, we wonder if information on the market value of the exposure or collateral is still necessary.

Furthermore, as already indicated in our answer to Q10 we deem that fields referring the eligibility criteria seem burdensome and not strictly relate to delegated mandate that requires information on the assets based on their type and characteristics and not on eligibility. Therefore, we do not support that the value of cash received in a repo should be reported as liquidity management or investments.

We suggest collecting all the reported fields in the periodic reporting, independently of the reporting period (quarterly or annually for smaller funds).
The need to report unencumbered assets will depend on the classification of the "other liquid assets" that a MMF may hold in accordance with article 50(2) of Directive 2009/65/EC. In our understanding where such assets are classified in a specific item (please refers also to our answer to Q10) the report of unencumbered assets could be removed.
<ESMA_QUESTION_MMF_13>

14. **: Do you think the information on the investor 'lock-up' period in days (report asset weighted notice period if multiple classes or shares or units) is relevant in the case of MMFs (this information is included in the AIFMD reporting template)?)? Do you agree with the proposed way to report stress tests?**

<ESMA_QUESTION_MMF_14>
The information on lock-up period seems not relevant for a MMF.

As regards stress test, we believe that the guidelines on stress test should be developed for illustrative purpose only and should not prescribe standardisation (please refer also to our answer to Q21). Therefore, we do not support the detailed provisions set forth in the appendix to the annex of the consultation. The outcome of stress test should be only a text field.

It should be also clarified that in case no stress test is made within the reporting period, the stress test information under reporting could simply include a description of such occurrence. Indeed, the reporting frequency is quarterly or yearly for smaller funds, while the stress test frequency will be determined by the board of directors and shall be at least bi-annual (art. 28(3) of MMFR).
<ESMA_QUESTION_MMF_14>

15. : Do you identify other type of information that should be included in the requested information in the reported template? What would be in your view the consequences in terms of costs of the proposed options for the reporting template? Do you agree with the assessment of costs and benefits above for the proposal mentioned in the CBA (Annex III) on the reporting template? If not, please explain why and provide any available quantitative data on the one-off and ongoing costs (if any) that the proposal would imply. Do you have specific views on the potential use of the ISO 20022 standard?

<ESMA_QUESTION_MMF_15>
We suggest adding in the type of other assets (A.6.31) also “other liquid assets” that a MMF may hold in accordance with article 50(2) of Directive 2009/65/EC. In our understanding, such assets should be classified with a specific item and not be commingled with deposits.

As regards the proposed options for the reporting template, we appreciate the exhaustive work that ESMA has performed in including several possible options in defining the data set of information that should be collected. However, as a general comment, we suggest collecting only information that suits well for MMF and responds to EU regulation. Moreover, ESMA should always take into account the MMFR mandate. In particular, caution should be exercised in using the SEC definition/reporting framework.

As regards the data-set of information of AIFMD reporting, we deem that the information collected in AIFMD could be a useful starting point only for technical or operational items. For the core data-set of information, AIFMD reporting is not appropriate as features of MMF are not comparable to AIF. The universe of funds in the AIFMD reporting is quite huge and funds have different characteristics compared to MMF, in term of eligible assets, leverage, time horizon. Even if in general terms, we agree that the same type of information should not be requested and expressed in two different ways in the context of AIFMD and MMFR reporting, we see some possible exceptions. As already indicated in Q10, for example the definition of total assets should be the total assets indicated in the balance sheet of the MMF and not the total assets as defined in AIFMD framework, since under MMFR the use of derivatives and financing is not comparable.
<ESMA_QUESTION_MMF_15>

16. : Do you agree that the abovementioned references to EU/international standards are relevant in the context of the issuance by ESMA of guidelines on stress testing of MMFs? Do you identify other pieces of EU/International law that would be relevant in view of the work on ESMA guidelines on stress testing of MMFs?

<ESMA_QUESTION_MMF_16>
Pursuant to Article 28 of the MMFR, ESMA has to issue guidelines with a view to establish common reference parameters of stress test scenario taking into account different factors. Having regard

to the different standards on EU and international regulator considered by ESMA, we consider that the AIFMD framework on stress test as well as recommendation n. 6 of FSB policy recommendation to address structural vulnerabilities may be relevant.

We would caution against taking into consideration recommendation n. 9 of FSB on system-wide stressing that could potentially capture effects of collective selling by funds and other investors on the resilience of financial markets and financial system more generally. It should be noted that this recommendation is target to Authorities[7], not to asset managers.

References to US regulation should also be avoided given the differences between regulation and market practices between US and EU MMFs.
<ESMA_QUESTION_MMF_16>

17. : Do you have specific views on the interpretation of the requirements of Article 25(1) of the MMF Regulation on the meaning of the abovementioned "effects on the MMF"?

<ESMA_QUESTION_MMF_17>
We believe that asset manager should stress test the impact of various factors listed in L1 on the portfolio/NAV and, where relevant, on the liquidity of the assets to ensure the ability of the manager of the MMF to meet investors' redemption requests. Stress tests should point out whether any vulnerability has to be reported and they could led to the elaboration of action plans.

As regards the criteria suggested by ESMA (para. 10 and 11 at page 154 of the Consultation Paper) doubts arise with the concept of "liquidity bucket" as referred to article 24 and following of MMFR and with the request to "[...] *stress test the impact of the various factors listed in Article 28(1) of the MMF Regulation on both i) the portfolio or net asset value of the MMF and ii) the liquidity bucket(s) of the MMF and/or the ability of the manager of the MMF to meet investors' redemption requests [...]"* (para. 11 at page 154 of the Consultation Paper).

In our understanding. the reference to liquidity buckets is inspired by SEC regulation[8] on stress test in MMF 2004 Reform and it is not clear how could be the impact for an EU MMF. Is it requested to measure how much would change the value of the portfolio assets qualifying for the liquidity buckets for each single factor identified in Article 28(1), independently on simulation on various level of redemptions?

Under MMFR the "hypothetical level of redemptions" is a separate factor to be tested, while the U.S. MMF reform makes it clear that the criteria to be taken into account shall be used "in combination with various level of an increase in shareholder redemptions", as ESMA expressed in para. 221 (at page 60 of the Consultation Paper).
SEC have also recognised that a direct relationship between a fund's liquidity level and the factors to be tested may not always occur.

SEC has indeed "*modified the stress testing requirements so that each hypothetical event listed in the amendments is tested assuming varying levels of shareholder redemptions. We are not requiring the fund to test, for example, how a change in interest rates or credit spreads by itself affects*

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[7] The Recommendation requires modelling the effects of large asset sales involving an entire universe of very different market actors to improve the monitoring of the resilience of financial markets to collective selling by funds and other market actors. The required data collection, its aggregation and elaboration together with development of a model would present a challenging task for this stress testing exercise with uncertain outcomes. Difficulties would come in aggregating data on system-wide basis; qualitative factors and sound degree of judgment should be used, as investors (institutional and retail) do not decide to exit markets with the same subscription/redemption patterns. In addition, the identification of the ultimate asset owners for the estimation of the patters is an issue in itself.
[8] In para. 203 (at pag.54 of the consultation) are recalled the relevant provision such as "the periodic stress testing [...] of the market fund's ability to have invested at least ten percent of its total assets in weekly assets [...]" (emphasis added by ESMA)

a fund's level of weekly liquid assets, but rather how increases in redemptions combined with the effect of specific hypothetical events, like a change in interest rates or credit spreads, may affect fund liquidity" (page 560 of SEC Reform 2004).

We suggest therefore to clarify what does it mean in the proposed Guidelines to stress the impact of various factors listed in Article 28/1) of MMFR on "liquidity buckets", since its impact is already (partially) included in the simulation on the impact on NAV/portfolio. Higher the level of assets qualifying for the liquidity buckets then the minimum thershold, lower the value of this further stress test. In our understanding all the assets that respect the threshold should be used, for example for a standard VNAV if 70% of the assets respect the weekly threshold, the stress test should be made on 70% and not on 15% (minimum requirements). Differently, it could be questionable if an asset manager should choose which asset respecting the threshold for the stress-test.

We propose also to limit the stress-test only to the factors that could be relevant for the single MMF. We wonder if it could be valuable stress test on "liquidty buckets" with specifi reference to the following factors: hypothetical widening or narrowing of spreads among indexes to which interest rates of portfolio securities are tied and hypothetical macro systemic shocks affecting the economy as a whole.

Therefore we suggest the following redrafting of para. 5.1 of Guidelines on certain general features of the stress test scenarios of MMF (Consultation Paper pages 154-155).

9. Article 28 of the MMF Regulation indicates that MMFs must put in place "sound stress testing processes that identify possible events or future changes in economic conditions which could have unfavourable effects on the MMF".
10. This leaves room for interpretation on the exact meaning of the "effects on the MMF", having in mind that different interpretations are possible (e.g. impact on the portfolio or net asset value of the MMF, impact on the volatility of the portfolio or net asset value of the MMF, impact on the liquidity ***of the assets*** ***~~bucket(s) of the MMF as referred to in Article 24 and following of the MMF Regulation~~****, impact on the ability of the manager of the MMF to meet investors' redemption requests, impact on the difference between the constant NAV per unit or share and the NAV per unit or share (as explicitly mentioned in Article 28(2) of the MMF Regulation in the case of CNAV and LVNAV MMFs), impact on the ability of the manager to comply with the different rules specified in Articles 17 and following of the MMF Regulation.*
11. The wording of Article 28(1) of the MMF Regulation is broad and should therefore include various possible definitions. In particular, the stress test scenarios referred to in Article 28 of the MMF Regulation should stress test the impact of the various factors listed in Article 28(1) of the MMF Regulation on both i) the portfolio or net asset value of the MMF and ii) the liquidity ***of the assets*** ***~~bucket(s)~~*** *of the MMF****, where relevant*** ***~~and/or the ability of the manager of the MMF to meet investors' redemption requests~~****. This broad interpretation is in line with the stress testing framework of the AIFMD, which includes both meanings in its Articles 15(3)(b) and 16(1). The specifications included in the following sections 5.2 to 5.7 therefore apply to stress test scenarios on both aspects,* ***where relevant*** *mentioned above.*
12. With respect to liquidity, it is to be noted that liquidity risk may result from: (i) significant redemptions; (ii) illiquid assets; or (iii) a combination of the two.

As regards the other parts of para. 5.1, please consider the following suggestions:

- Historical scenario and hypothetical scenarios (page 155): it seems that para. 16 requires only correlated factor (creation of a correlation matrix), while para. 17 allows using also uncorrelated factors. We support using also uncorrelated factors.

- Combination of the various factors mentioned in the following sections 5.2 to 5.7 with investors' redemption requests (pages 156 and 157): please consider the following amendments in the practical example in para. 23
  23. This stress test shows that a redemption by the three largest investors (25% of net assets) would push the weighted average life (WAL) beyond the 120-day regulatory threshold (for a short-term money market fund) and cause the portfolio to lose in the region of 2-3 bps under normal conditions. The same level of cumulative redemptions with ***credit premium shock of ~~a~~ 25 bps*** *~~rise in interest rates~~ would cause a loss of around 13-18 bps.*

- Non-exhaustiveness of the factors mentioned in the following sections 5.2 to 5.7 below (page 157): since we strongly support the principle-based approach adopted in the example in para. 22 and in the referring factors metioned in the following sections 5.2 to 5.7, we propose to replace "minimum requirements" by "illustrative", when referring to the factors set out in the following sections 5.2 to 5.7. The objective should not be to set out standardised requirements throughout the stress test tool, but to apply stress tests that are adapted and therefore meaningful to the specific fund to capture its potential vulnerabilities.

<ESMA_QUESTION_MMF_17>

18. : Do you have views on the specifications of the following criteria:

- level of changes of liquidity of the assets with respect to Article 28(1)(a),

- levels of changes of credit risk of the asset with respect to Article 28(1)(b),

- levels of change of the interest rates and exchange rates with respect to Article 28(1)(c),

- levels of redemption with respect to Article 28(1)(d),

- levels of widening or narrowing of spreads among indexes to which interest rates of portfolio securities are tied with respect to Article 28(1)(e),

- identification of macro-systemic shocks affecting the economy as a whole with respect to Article 28(1)(f))? (how would set the calibration of the relevant factors in the case of the Lehman Brothers' event, and the two proposed scenarios A and B? With respect to scenario B mentioned above, do you think the duration of 12 months is appropriate?)

<ESMA_QUESTION_MMF_18>

Please find below our comments on the different criteria.

- Credit risk (5.3 Guidelines on the establishment of common reference parameters of the stress test scenarios in relation to hypothetical changes in the level of credit risk of the assets held in the portfolio of the MMF, including credit events and rating events (page158 of Consultation Paper))

  As illustrated in our previous answer to Q7 we do not support ESMA's approach when, in our understanding, links the "material change" to the "*relevant quantitative or qualitative different criteria, to the risk factor of the stress scenarios, including those referred to in Article 28 of MMF Regulation*" (article 3 of the draft technical advice on page 105 of Consultation).

  We propose cancelling the provision that seems linked to such proposal.
  ~~32. With respect to such stress tests involving the levels of changes of credit risk of the asset, it would also be relevant to consider the impact of such stress tests on an the credit quality assessment of the corresponding asset in the context of the methodology described in Article 19 of the MMF Regulation.~~

In any case, clarification of the wording of para. 32 would be appreciated.

- <u>Redemption</u> (5.5 Guidelines on the establishment of common reference parameters of the stress test scenarios in relation to hypothetical levels of redemption (pag. 159 of Consultation))

  We do not think that prescriptive levels on redemptions should be fixed for all the MMFs. Please refer to our answer to Q21.

- <u>Macro-systemic shocks</u> (5.7 Guidelines on the establishment of common reference parameters of the stress test scenarios in relation to hypothetical macro systemic shocks affecting the economy as a whole (page 162 of Consultation Paper))

  We agree with ESMA's proposal since it is no prescriptive in its guidance.

  We also appreciate the example suggested in para. 48, since for the stress test of the macro-systemic shocks are used factors that should already be tested and/or derivable from markets. Indeed, the example in point iii.) A and B shows combination of interest rates, credit spread and redemption level, in a stress or worst figures scenario.

  Even if the criteria are not mandatory, we propose to delete the reference to the macro-systemic shock, including GDP, in para. 47 and to the UK Prudential Regulation Authority's (PRA) calibration of global stress test, in para. 48 point ii).

  Both the criteria are referring directly or indirectly to banking legislation, where stress test (based also on macroeconomic scenario) are used to understand also whether a bank has enough capital to withstand the impact of adverse developments and so to ensure the orderly functioning and integrity of financial markets and the stability of the financial system. In line with FSB recommendation n.9 (see also our response to Q16) it is the task of the authorities to analyse the level of systemic relevance and to consider whether and how to incorporate such potential impact in system-wide stress testing to better understand collective behaviour dynamics as well as the impact on financial markets and on the financial system more generally.

  Macro-system shock should then be adapted in the contest of the internal risk management measurement of an asset manager and would be calibrated to a MMF. Indeed, GDP is not usually considered as an individual factor in the risk management system, while market risk factors and sensitivities (such duration, beta …) are used.

  We propose therefore the following redrafting of para. 5.7

  ~~***47. However, ESMA is of the view that managers could use an adverse scenario on the GDP (e.g. -1% GDP during 3 years). Managers could also replicate macro systemic shocks that affected the economy as a whole in the past, such as the Lehman Brothers bankruptcy event.***~~

  48. The manager could also consider a global stress test scenario that could be designed in several ways:
  i. the Lehman Brothers' event with the calibration of all relevant factors one month ahead of the failure of this firm;
  ~~***ii. PRA's calibration of global stress test (as referred to in the PRA calibration119);***~~
  iii. ~~***A)***~~ *a scenario including a combination of the 3 following factors: i) a parallel shift in interest rate (x) ii) a shift in credit spreads (y) and iii) a redemption stress (z));*

iii~~v. B)~~ *a scenario including a combination of the 3 following factors: i) a parallel shift in interest rate (x) ii) a shift in credit spreads (y) and iii) a redemption stress (z)) Variables x, y and z being the worst figures/shifts experienced by the fund, on an independent basis, for the last 12 months.*
<ESMA_QUESTION_MMF_18>

19. : Are you of the view that ESMA should specify other criteria that should be taken into account? If yes, which ones?

<ESMA_QUESTION_MMF_19>
We do not think that additional criteria should be taken into account.
<ESMA_QUESTION_MMF_19>

20. : Are you of the view that other topic should be covered in the ESMA guidelines under the requirements of Article 28 of the MMF Regulation?

<ESMA_QUESTION_MMF_20>
We do not think that additional topics should be covered in the ESMA guidelines.
<ESMA_QUESTION_MMF_20>

21. : Do you agree with the assessment of costs and benefits mentioned in the CBA (Annex III) on the different options on the Guidelines on stress tests? If not, please explain why and provide any available quantitative data on costs (if any) that the proposal would imply.

<ESMA_QUESTION_MMF_21>
We support Option 1 that it is a very high-level principle-based approach and it would not impose specific and quantitative criteria nor threshold in relation to all factors listed in article 28(1) of MMFR, as described on page 89. We think that the wording used in the draft guidelines ("could") is already coherent with a principle-based approach, as long as ESMA adapts also the wording of chapter 5.1.

High-level principles on most criteria and clear but <u>not mandatory</u> provisions on thresholds and limits on few criteria such as liquidity of the assets, movements on interest rates and levels of redemptions are very appreciated since they enable asset managers to adapt their procedures without burdening on management systems.

We think that ESMA should avoid any comparison of stress test across Europe, which would require a more prescriptive approach. We believe that such a choice would undermine the scope of the stress test. Indeed, we believe that the new reporting requirement would help ESMA to assess the characteristics of the different MMFs across Europe. Since full portfolio information and liability characteristics will be available on periodic basis on each MMFs through the new MMF reporting, ESMA would have the necessary information to stress test itself systemic risk or specific MMF's risk.

Stress tests should point out whether any vulnerability has to be reported and they could lead to the elaboration of action plans. Should the guidelines be more stringent in requiring specific features of the stress tests, the out-put would not be valuable for the asset managers and it would only impose additional governance and administrative costs.
<ESMA_QUESTION_MMF_21>