

## **Consultation Paper on the Draft guidelines on the reporting to competent authorities under Art. 37 of the MMF Regulation**

### **General comment.**

Assogestioni<sup>1</sup> welcomes the opportunity to respond to ESMA Draft guidelines on the reporting to competent authorities under art. 37 of the MMF Regulation.

We believe that data reporting should not be a costly exercise and it is essential to strike the right balance between having an appropriate level of information and reducing the administrative burdens for MMF managers. We suggest keeping the reporting simple as much as possible.

In this context, it should be avoided that the reporting of the MMF requires information that may not be a standard practise in the MMF's liquidity risk management. We refer to the drafted guidelines on the portfolio liquidity profile in which the same approach used in the AIFMD reporting framework is proposed. Considering the MMF characteristics and the granular information available in the MMF reporting, the time for liquidation of MMF's assets should reflect the self-assessment made of the MMF manager, in line with its risk management procedure, rather than being assigned to a period only (the shortest period during which such a position could reasonably be liquidated at or near its carrying value). Unlike the AIFMD framework, a full disclosure of all portfolio underlying that could be used by authorities to estimate, and compare, the liquidity profile of different MMFs is available under MMF framework.

In a similar way, stress tests results should only be reported in the reporting when carried out and the duplication of the same information should be avoided in subsequent reports. This increases efficiency and reduces costs.

We also invite ESMA to clarify if, and in case how, the field on the internal assessment of the credit quality of the money markets instruments (A.6.19) in which asset managers apply article 10(3) of MMFR should be fulfilled.

Finally, as there may be some issues in the reporting of collateral, where no information on collateral could be available for the single trade (where the collateral is based on net exposure), we would invite ESMA considering the availability of information under EMIR and SFTR reporting.

### **Q1: Are you of the view that there could be merits for managers of MMFs subject to yearly reporting in accordance with article 37(1) of the MMF Regulation to report on a quarterly basis so that their corresponding operational process is less burdensome?**

Yes, we agree with giving the opportunity for manager of MMFs subject to yearly reporting to report on a quarterly basis. In fact, the choice made, as an opportunity, could be changed during the life of the MMF. For example, a more frequent reporting could be less burdensome for an asset manager when the MMF assets are close to 100 million and it would be difficult to apply procedures regarding changes in the reporting frequency,

---

<sup>1</sup> 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 December 2018).

especially when in some quarters the MMF assets may be below the threshold and in other quarters above. At a later stage, the MMF asset manager could consider changing the frequency to a yearly reporting in line with article 37(1).

**Q2: Do you identify potential situations in which managers of MMFs do not have any information to report on MMFs other than those listed above (e.g. certain types of situations of liquidation of the MMF?)**

Other potential situations in which managers of MMFs have not any information to report on MMFs could be:

- Change the frequency from a quarterly reporting to a yearly reporting in line with article 37(1), not only for MMFs passing below the threshold of 100 million EUR, but also for MMFs whose assets are below 100 million but opt for a quarterly reporting.

**Q3: Do you agree that the MMF Guidelines could specify which sources should be used by managers of MMFs if the base currency is not included in the list of currencies for which the ECB provides an exchange rate? If yes, which sources should be used in your view?**

We support consistency with AIFMD where there is not specification of the sources that should be used if the base currency is not included in the list of currencies for which the ECB provides an exchange rate. However we would like to stress that it is important that asset managers are not subject from additional cost from reporting purposes, hence the sources should be typical market data providers that are already widely available.

**Q4: Do you identify any other issue that would need to be specified in relation to the above section on “general principles” of the reporting template?**

We have the following observations.

Possible comments on a reported element: In our prospective, the indication of possible comment/assumption made to fulfil the reporting for the quantitative information should be limited as much as possible because it could have some side effects on data quality. In any case, where comments are considered useful, we suggest to align the reporting to the methodologies used in the context of AIFMD framework, where, instead of a drop-down approach, two specific fields (ID 14 –Question number for which assumption is provided and ID 15 – Assumption description – free text) are provided. The possible risk with a drop-down approach is that the proposed list may not be exhaustive, and a free text should be provided in any case.

**Q5: Do you agree that if an MMF is composed of different share classes that differ in relation to their base currency the base currency that should be included in field A.1.12 should be the base currency as specified in the accounting documents of the MMF or are you of the view that in that case the base currency of the largest share class should be included in field A.1.12? Would you see merit in aligning the inception date mentioned above in section X with the first reporting date, as defined in section II?**

Regarding the base currency, we agree that the base currency that would be used is the one specified in the MMF accounting documents.

With reference to the “inception date”, it is understood that the inception date is the date when the “first” NAV is calculated, except for pre-existing fund which has been granted the authorisation under MMFR for which the inception date is the authorisation date. Since the inception date (calculation of the first NAV) of a new fund may differ from the date of its authorisation, with consequences on the time of the first reporting to be submitted, we do not support the alignment of the inception date (Section X) with the first reporting date (Section II). In fact, in line with Section II, we support that MMF managers should start reporting on the authorisation data (with a no reporting flag) even if the MMF has not been launched.

**Q6: Do you identify any other issue that would need to be specified in relation to the above section on the block 1 of the reporting template?**

Regarding section XIV “Merge of an MMF” we have some comments on par.64 *“Managers of MMFs should provide the last report of the MMF to their NCA not later than 30 days after the end of the quarter in which the MMF has been merged”*.

We suggest to clarify if, in case of merger of a MMF that has an annual report (below threshold), it is correct to apply, for its final report, the rules of par.34 (procedures in case of “change” of reporting frequency from a yearly reporting to a quarterly reporting). For example, if the merger applies during Q2, after 30 days from Q2 it should be submitted to the competent Authority H1 (which covers the months from the beginning of the year up to the merger date).

In addition, we would like to request ESMA that field A.1.16 (ECB code - MFI ID code - of the manager of the MMF) should be marked as ‘optional’. This code is not used in practice and, in addition, not sufficient. In particular, ESMA would be already able to identify the manager of the MMF through the LEI or the national code. However, from a data point of view, the practical procedure should be clarified where and how managers of MMF could request this code. In particular, it should be avoided that a code that is not needed would create new cost for managers of MMFs.

**Q7: Are you of the view that the abovementioned specification leaves too much room for interpretation and would lead to data that is not comparable? Are you of the view that settlement periods should be taken into account and that, as a consequence, the last part of the abovementioned specification (“if it has as a non-negligible impact on the liquidity profile of the MMF”) should be removed?**

As regard portfolio liquidity profile fields (A.4.7) we have some comments regard both the method to be used for fulfilling the buckets (par. 81) and on the settlement periods.

Par. 81 requires that *“Managers of MMFs should report the percentage of the fund’s portfolio that is capable of being liquidated within each of the liquidity periods specified. Each asset 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. The total should equal 100%. If individual positions are important contingent parts of the same trade, managers of MMFs should group all of these positions under the liquidity period of the least liquid part.”* The periods foreseen in the ITS are: 1 day or less, 2-7 days, 8-30 days, above 30 days.

In our understanding, par. 81 requires that each investment should be assigned to a period only even if MMFs can liquidate part of their position earlier. Although this criterion may have some value in the AIFMD reporting, we have reservations for its application under the MMF reporting. The results would be too conservative and would affect the asset management procedures on liquidity risk, where such an approach could not be a standard practise.

Therefore, we suggest, as far as possible, to avoid any specific guidelines on how field A.4.7 should be fulfilled and make a generic reference to the fact that the bucketing of assets in different periods should reflect the self-assessment made of the MMF manager in line with its risk management procedures.

For example, according to the draft guidelines if MMFs assumes not to liquidate its position in government bonds of the same issue (eg 10%) over a certain percentage every day (eg 1% each day), in the reporting table it should be indicated 10% in the bucket 8-30 days, even if the MMF could liquidate part of its position every day. Instead, each asset should be also assigned to different periods depending on the estimate made by the asset manager. With reference to the previous example, in the report table it should be reported: 1% in the bucket 1 day, 6% in the bucket 2-7days, 3% in the bucket 8-10 days.

Similarly, we believe that the asset manager is responsible to decide if considering the time delay for having the proceeds of the sale available on cash accounts. Where the settlement date is considered (for all or for a part of its assets), it is worth reminding that even for the best liquid asset, the bucket allocated will be, at least, 2-7 days (the asset would be paid in two days (T+2)). So, with reference to the previous example, in the report table would be reported: 0% in the bucket 1 day, 6% in the bucket 2-7days, 4% in the bucket 8-10 days

Finally, it is worth noting that unlike the AIFMD reporting, under MMF reporting a full disclosure of all portfolio underlying is available. Such huge amount of data could be used by authorities to estimate, and compare, the liquidity profile of different MMFs. So, we wonder if it could be reviewed the need to specify how the disclosure should be made.

**Q8: Do you have any views in relation to the abovementioned formula on how to measure the monthly portfolio volatility or are you of the view that another formula would be welcome?**

[...]

**Q9: Do you identify any other issue that would need to be specified in relation to the above section on the block 2 of the reporting template?**

[...]

**Q10: Do you identify any other issue that would need to be specified in relation to the above section on the block 3 of the reporting template?**

With regard to stress test reporting, we agree with ESMA that it should be clarified how the stress test fields (A.5.1 to A.5.10) should be filled in the reporting quarters when no stress tests have been carried, but we do not agree with the proposal that requires reporting the results of the last stress test, with information on their reference date, in the reporting quarters where no stress tests are conducted.

Data reporting should not be a costly exercise for MMF managers and we believe that it is essential to strike the right balance between having an appropriate level of information and reducing the administrative burdens. Since stress tests results would be reported in the quarterly reporting when carried, duplication of the same information should be avoided in subsequent quarterly reports.

Moreover, even if it is quite probable that stress test would be carried out with reference to the end of the year, we do not agree with par. 94 where it is stated that “[...] one of these dates should be the last day of the year” because it is not in line with article 28(3) of MMFR which only requires that stress test should be carried out at least twice a year, with no indication of their reference date. Therefore, we suggest aligning the guidelines to MMFR.

Finally, we agree that for MMFs that have to report on an annual basis only the latest stress test should be reported. We will see merit in clarifying this criterion also for MMFs that have to report on quarterly basis that conducts different stress tests during the reporting period.

**Q11: With the respect to the CFI codes to be provided, do you identify any eligible asset not included in the table in the Annex of the Guidelines?**

[...]

**Q12: Do you agree with the proposals of ESMA in relation to the domicile of the abovementioned assets?**

[...]

**Q13: Do you agree that a category “supranational/multiple regions” should be included in the potential geographical areas to be chosen? If yes, could you provide examples of assets for which you would choose that category?**

[...]

**Q14: Do you agree that the clean price of the money market instrument (A.6.12), this field should always be reported in absolute terms (in monetary values, not in percentages)? Which of the 2 abovementioned options on the “base currency” mentioned in field A.6.13 would you favour: currency of the asset or the currency of the MMF?**

We agree that the clean price of the money market instrument (A.6.12) should always be reported in absolute terms (in monetary values).

Regarding the base currency to be used to value field A.6.13 (clean price of a money market instrument) and all similar fields, we support the use of the currency of the fund (and not of the asset). It should be avoided that the conversion rate to be used for the reporting purpose is not aligned with the one used for the calculation of the NAV and a single definition of “base currency” should be used in the (whole) guidelines.

Therefore, in the case of a USD bond hold in a SEK share class, in our understanding, the field “A.6.13 – (in base currency)” should be expressed in the base currency “SEK” and the field “A.6.12 – (in EUR)” will be converted in EUR using ECB rate. Finally, we would highlight possible refuses in par. 108 when references are made to fields A.6.13 and A.6.14 .

**Q16: Do you identify other potential contract types that would need to be included in the list above in relation to field A.6.39?**

[...]

**Q17: Do you see merits in clarifying what should be the name of the underlying as referred to in Field A.6.45? If yes, which specifications would you expect?**

No, we do not see any merits in clarifying what should be the name of the underlying as referred to in Field A.6.45. In line with the principle of “smart regulation” it could be a more efficient solution to avoid any potential rules for the name of derivatives’ underlying.

**Q18: Are you of the view that ESMA should further specify what is meant by “exposure” in fields A.6.91 and A.6.92? If yes, which types of specifications would you suggest?**

No, we are not. In any case, we agree with on the definition of the gross exposure that ESMA is suggesting with reference to fields A.6.91 and A.6.92.

**Q19: Do you identify any other issue that would need to be specified in relation to the above section on the block 4 of the reporting template? In particular, in your view, how would the NAV of the MMF compare to the sum of the values of the fields on total market values (and quantity) of money market instruments, securitisation and ABCP, financial derivative instrument, unit or share of other MMF, deposit or ancillary liquid asset, repurchase agreement and reverse repurchase agreement (A.6.16 and A.6.11, A.6.34 and A.6.29, A.6.54, A.6.67 and A.6.69, A.6.80, A.6.91)? Do you have any comments on the table “CFI codes for eligible securities” included in the annex of the Guidelines?**

Credit quality assessment. Article 10 (1) of the MMFR, concerning eligible money markets instruments, provides that the MMF is authorized to invest only in those instruments that meet all the requirements listed in the same par. 1. Among them, point (c) of paragraph 1 states *“that the issuer of the money market instrument and the quality of the money market instrument have received a favourable assessment pursuant to Articles 19 to 22”*. However, article 10 (3) states that *“point (c) of paragraph 1 shall not apply to money market instruments issued or guaranteed by the Union, a central authority or central bank of a Member State, the European Central Bank, the European Investment Bank, the European”*.

That being said, in the field A.6.19 “Indicate whether the outcome of the internal credit assessment procedure is favourable/unfavourable” we see merit in clarifying how this field should be fulfilled when asset managers apply article 10(3) of MMFR.

As a possible option, we suggest marking this information as conditional, so if the answer to a possible question concerns the non-application of article 10(3) is positive, the corresponding conditional information (favourable/unfavourable) should be reported. Otherwise, no information should be presented.

Market value of the Collateral received (in relation to the financial derivative instruments) (fields A.6.56 – A.6.57) and received (in relation to the repurchase agreement or a reverse repurchase agreement) (fields A.6.91 – A.6.92)

In general, the collateral is managed by reference to the (net) exposure deriving from all OTC derivative transactions made with the same counterparty. When more than one OTC derivative is used, the collateral, being attributable to the net sum of all debit and credit exposures, is not attributable to each individual OTC derivative.

Similarity to OTC financial derivatives, collateral may not be collected at transaction level also for reverse repo/repo.

We see merit in clarifying how these fields should be met when collateral is taken place on the level of the net exposures between two counterparties, rather than at the transaction level.

Since the reporting of collateral positions for OTC derivatives is also made under EMIR while for repo/reverse repo transactions under the new SFTR reporting regime, we suggest reporting that “no information is available” in these cases (where only a “0” value is not eligible). As a second option, where information on collateral should also be provided, the market value of any collateral that may refer to the same counterparty

may be indicated. However, with this second option, all transactions (OTC derivatives and/or repo/reverse repo) with the same counterparty would have the same value in the fields (A.6.56 (A.6.57) or A.6.91 (A.6.92)).

**Q20 Do you identify any other issue that would need to be specified in relation to the above section on the block 5 of the reporting template? In particular, in your view, how would the NAV of the MMF compare to the sum of the values of the fields on total market values (and quantity) of money market instruments, securitisation and ABCP, financial derivative instrument, unit or share of other MMF, deposit or ancillary liquid asset, repurchase agreement and reverse repurchase agreement (A.6.16 and A.6.11, A.6.34 and A.6.29, A.6.54, A.6.67 and A.6.69, A.6.80, A.6.91)? Do you have any comments on the table “CFI codes for eligible securities” included in the annex of the Guidelines?**

With reference to the field A7.11 “Payments to investors” ESMA believes that it should be specified that these payments include dividends. In our understanding, income reinvested back into the fund (accumulation fund/share) should not be included in this field.

**Q21 Do you identify any other issue that would need to be specified in relation to the above section on the block 6 of the reporting template?**

[...]