Money Market Funds Review

A perspective from corporate treasurers

The European Association of Corporate Treasurers (EACT) brings together 14 000 corporate treasurers who represent the end-users of financial services across 22 European countries.

We are companies **representing the entire European economy** without specific commonalities apart from the way we use Money Market Funds in our day-to-day business.

We believe that there are **useful steps that can be taken to strengthen the current system** without fundamentally calling into question the framework which we have only recently implemented in Europe.

Why corporates use MMFs:

Money Market Funds fulfil two vital functions for non-financial corporates, they allow us to manage our liquidity as well as providing funding options for companies.

- **MMFs play a crucial role in our toolbox to manage our liquidity and cash.**
- In addition, **MMFs invest in companies' commercial paper and thereby fund the real economy.** While not all MMFs fund companies, the diversity of funds available is key to perform this function.

For these purposes, corporates choose MMFs as a way to manage their liquidity with **stable and secure products which operate in a well-regulated and safe framework**. We are grateful for the tools the MMF Regulation offers us and look ahead to the next phase of regulation to ensure a balanced approach to ensure financial stability while also maintaining a meaningful choice for end-users.

The review must ensure the availability of viable products responding to the needs of corporate end-users. The paradox of making MMF markets over-regulated and very secure may lead to policymakers pushing end-users into riskier and less well-regulated places.

Reduced options to place cash would incentivise companies to turn away from the regulatory framework of MMFs and explore riskier options possibly including peer-to-peer lending among corporates.

Reforms of the MMF framework which result in less available funds would lead to a consolidation and concentration of the market which may make funds less profitable and risk actors exiting the market. This would not be a desirable outcome for corporates as end-users in need of intra-day liquidity that already face difficulties finding MMFs matching their needs.

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

Corporates' experiences of the March 2020 market stress:

As commercial activities came to a halt on a global level, companies had to continue to finance their working capital requirements and pay their suppliers, employers and contractors – as part of the response to government demands to continue payments and avoid deterioration of inter-company credit.

We welcome the reflections undertaken since March 2020 to consider how the MMF framework could be reinforced and would like to emphasise that the new rules implemented three years ago have proven highly resilient in the face of extreme stress, without clear evidence showing fundamental issues.

As corporate end-users we did not face any issue to perform redemption. No EU or US MMFs had to implement liquidity fees on redemptions, redemption gates or suspend redemptions.

Essential features of MMFs for corporates:

- We want to find the **right middle way** between resilience of the wider MMF sector and ensure that corporates can avail of the products to effectively manage their liquidity with the existing models.

- To **avoid first-mover advantage** when approaching thresholds, we fully recognise and support delinking liquidity fees and redemption gates from liquidity buffers.

  We are generally concerned about redemption gates - especially if they remain to be tied to the amount of weekly liquidity levels - ,as well as swing pricing.

  a) Redemption gates
  The concept of gates to protect MMFs in case of high redemptions is generally advantageous. Nevertheless, during the market stress in March 2020, it could be observed that several MMFs faced liquidity issues (especially certain LVNAV MMFs in USD and some VNAV MMFs in EUR). Besides the severe deterioration of the liquidity of the underlying money market instruments, it seemed that investors feared to be harmed by potential gates. They might have kicked in if the relevant regulatory thresholds were reached (esp. the weekly liquidity level of 30% for LVNAV funds) thus reducing the capacity to provide liquidity to investors who really need cash. Therefore, we favour the removal of the tie between MMF liquidity and gates.

  b) Swing Pricing
  We generally like the idea that portfolio restructuring costs (liquidity costs, taxes and fees) are equally distributed between investors - especially during adverse market conditions. However swing pricing is not an appropriate tool for MMFs – as if MMFs were required to use swing pricing, it is unlikely that they would be able to offer same day settlement to all investors and this would undermine one of the fundamental characteristics of the MMF investment proposition. MMFs already have the option to apply liquidity fees to redemptions which can ensure that shareholders who remain in the fund are not unfairly disadvantaged when other shareholders redeem. As such, we do not see the need to legislate for additional anti-dilution levies which seek those same outcomes.

- Non-financial companies rely on the various MMFs available for both funding and liquidity management and need an option that allows **same-day settlement** which is currently covered by LVNAV MMFs.

  Airbus is using LVNAV for liquidity management on a daily basis. The same-day settlement is crucial for Airbus, any delay would make us reconsider the use of MMFs.

- One major concern of corporate end-users is the **ban of rounding of MMF valuations to two decimal places** which provides the possibility of a stable valuation for those funds subject to strict conditions.
  Based on our observations, liquidity stains are not driven by the rounding of valuation of LVNAVs but rather by other constraints on cash within the system. Stable NAVs provide a core tool for corporations to manage very short-term day-to-day liquidity for intra-day margin arrangements and same-day liquidity needs.

- We would also like to suggest a more **harmonised process on what can be considered cash or cash equivalent** to ensure more stability on the balance sheets of corporates. As VNAV MMFs are treated differently across Member States, harmonised guidance would create more security. We believe this decision should be made at fund level rather than asking each auditor for an interpretation on cash equivalence on a company basis. To make this process more efficient we would welcome more clarity on EU-wide alignment in the new framework.
  As Airbus SE, we are registered in the Netherlands where the GAAP is equivalent to IFRS. Under IFRS, MMFs are considered as cash or cash equivalent.

- We would like to express an additional concern related to **mandatory government debt buffers**. Due to the limited supply of high-quality government securities, the introduction of government debt holdings would create supply constraints as the size of liquidity intermediation in the system would be limited. In addition, price volatilities due to interest rate pricing risk as well as liquidity risk arising from higher cash buffers to protect against illiquid government bonds. If the objective is to strengthen liquidity and resilience of the MMF sector, we recommend focusing on liquidity buffers themselves in the form of cash rather than near-cash government debt assets.

We are strongly supportive of **maintaining the resilience and stability** of this sector and welcome regulatory reviews to ensure that outcome, while also highlighting the vital role of a properly functioning MMF sector which offers a meaningful choice of fund types to end-users.