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EFAMA's RESPONSE TO PROPOSED GUIDANCE ON MONEY MARKET FUND LIQUID ASSET LEVELS

INTRODUCTION

EFAMA fully endorses the core findings of the European Commission's recent report on the adequacy of the EU Money Market Funds Regulation (MMFR) from a prudential and economic point of view, along with the accompanying FAQs on the interpretation and implementation of certain MMFR provisions.

These findings corroborate the considerable evidence brought by our industry to supervisory bodies following the March 2020 market correction, helping to further demonstrate the resilience of European MMFs across all types (stable NAV and VNAV) under the current regulatory framework. We would highlight in particular:

- The fact that managers across all types of MMF opted, when necessary, to manage liquidity - and particularly their weekly liquid assets (WLA) - consistently above the MMFR regulatory *minimum* requirements, despite episodes of severe turbulence; and
- That MMF weighted average life (WAL) levels remained well below the regulatory MMFR ceilings of 120 or 360 days, demonstrating the prompt replenishment of MMF liquidity buffers at times of market volatility, as well as the importance of manager discretion in actively managing liquidity levels.

We welcome the Commission's proportionate approach of recommending enhancements to the existing MMFR liquidity requirements in its May 2026 report, instead of 'hardwiring' these enhancements by way of a formal revision of the MMFR. Regarding the recommended 'market resilience levels', we agree these should not be interpreted as new regulatory limits, additional to the ones established in the MMFR itself. Instead, they should merely count as useful reference points to anchor a more prudent approach to internal liquidity management, in line with supervisory expectations and in a way that is proportionate to the different MMF types. In addition, we care to remind supervisors that MMF liquidity should be appreciated more holistically; i.e. while WLA levels remain an important metric, other factors merit consideration as well, such as the concentration of investor redemptions, their speed, secondary market liquidity, etc.

In terms of meeting the revised expectations of their respective supervisors stemming from the proposed guidance, EFAMA agrees that MMF managers should - in their ordinary course of business - aim to adhere

to the new recommended 'resilience levels'. Yet, adherence to these should not be overly rigid to avoid incentivising procyclical behaviour. In this regard, allowing the additional 'resilience levels' to be used as a 'buffer' remains crucial to address potentially significant and prolonged deviations from the newly recommended WLA levels. Failure to adhere to these resilience levels should not qualify as an outright regulatory breach, but merely mark the initiation of an internal review process which may ultimately lead an MMF manager to contact its national supervisor.

Assuming that the guidance stemming from the consultations issued jointly by the *Autorité des Marchés Financiers* (AMF), the Central Bank of Ireland (CBI) and the *Commission de Surveillance du Secteur Financier* (CSSF) will confirm this interpretation, we answer the consultations' common questions on the intended two-part guidance in the sections below. Lastly, we call on these three national supervisors to maintain their close coordination with UK supervisory authorities, in ensuring their respective guidance remains broadly consistent in the interest of a pan-European MMF industry.

Part I - Guidance on liquidity risk management

We consider that the guidance on liquidity risk management put forward jointly by the three national supervisors is both prudent and sensible. Mindful of differences in wording in their respective consultation documents, it appears that the three supervisors are aligned in considering that the Commissions' recommended 'market resilience levels' do not supersede the existing WLA requirements (i.e. 30% for stable NAV MMFs and 15% for VNAV MMFs). Instead, the former are intended to aid liquidity management by introducing the slightly increased parameters for firms to factor into their liquidity management functions, and in particular, those under the MMFR's Article 28 stress-testing provisions. The French AMF is particularly clear in this respect by highlighting that:

Les gérants de MMF devraient intégrer ces niveaux de résilience du marché de 20 % et 40 % dans leurs processus de simulation de crise prévus à l'article 28 de MMFR, lorsqu'ils évaluent la résilience des MMF dans des conditions de crise.

The same rationale is equally explicit in the Luxembourg CSSF's formulation of its own proposed guidance, when referring to the recommended resilience levels as 'benchmarks to identify situations warranting further attention/scrutiny':

These market resilience levels are a benchmark to identify situations that warrant further attention/scrutiny by MMF managers, particularly within their risk management teams, and the activation of increased supervisory scrutiny and engagement by the relevant competent authorities with MMF managers.

We conclude that the 'market resilience levels' recommended by the Commission intend to establish an additional safety 'buffer' around the existing regulatory *minima*, offering managers greater leeway and comfort when managing liquidity under volatile market conditions. Such buffer therefore serves managers' internal risk management purposes, prompting the necessary consultations, escalation procedures and decisions involving the relevant board of directors, as per the foreseen action plans. Such process stops short of a formal new notification to the relevant national competent authorities, apart from the ones already foreseen under paragraphs 4-5 of Article 28 of the MMFR, which are limited to the information-sharing of stress-testing results.

In light of the above, the expectations being set are therefore not for managers to set WLA liquidity levels persistently above the recommended resilience level, as this would *de facto* force compliance with higher regulatory *minima* that the Commission has carefully sought to avoid.

Part II - Guidance on increased supervisory scrutiny and engagement

We understand that this part of the guidance addresses two specific contingencies: i) a situation where an MMF's WLA falls below the recommended 'market resilience levels' for a period exceeding 10 business days; or ii) where the MMF manager expects a prolonged and/or substantial deviation of the WLA away from these levels.

Where either contingency is met, the supervisory authority is to initiate a period of increased supervisory scrutiny and engagement with the managers of the MMF concerned. Their intensity will depend on the duration and frequency of deviations below the resilience levels, as well as on their justifications provided by the relevant manager. It is understood that such interactions could possibly call for additional information (including of risk indicators and daily reporting of key data points) to be provided to the supervisor.

While fundamentally not disagreeing with the guidance's rationale, EFAMA would be wary of *ad hoc* calls for additional information outside the existing supervisory reporting requirements of the MMFR. There is concern that such calls would risk placing MMFs at a disadvantage in terms of greater reporting burdens compared to other open-ended schemes. We refer here in particular to the more 'qualitative' information described in the proposed guidance by the three national supervisors, including impact of any central banks' decisions on MMF ranges, trading volumes observed and main active counterparties, measures taken/planned on liquidity, observed and potential quarter-end effects, and ad-hoc data on current portfolio holdings and cash/deposits/repos. One should also be mindful that additional information requests outside of the existing MMFR requirements would also be at odds with the purpose of ESMA's ongoing work around an integrated fund reporting framework stemming from the recent UCITS/AIFMD legislative review.

Lastly, over the coming months, managers with MMFs domiciled in France, Ireland or Luxembourg are looking to obtain a clear indication of when compliance with the final guidance will be expected, preceded by a sufficient implementation period for management companies to review their internal operations and communicate any relevant changes to their clients.

CONCLUSION

We are grateful to the three national supervisors for this consultation and commend them for their joint work and approach to ensure a harmonised interpretation – mindful of possible nuances - of the Commission's recommendations for the continued resilience of the European MMF industry. Such alignment will moreover be important in view of this year's planned effectiveness assessment by the FSB of its 2021 *Policy Proposals* to enhance MMF resilience.

ABOUT EFAMA

EFAMA is the voice of the European investment management industry, which manages around EUR 33 trillion of assets on behalf of its clients in Europe and around the world. Its membership consists of 29 national associations, 46 global asset managers, and 30 associate members. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Savings & Investments Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org

Contact:

Federico Cupelli

Deputy Director

federico.cupelli@efama.org | +32 2 513 39 69