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Submitted via email to: opc_prud_risk@cssf.lu

Re: Consultation on Guidance on Money Market Fund Weekly Liquid Asset Levels

The Investment Company Institute (ICI)[1] appreciates the opportunity to provide feedback to the Commission de Surveillance du Secteur Financier (the CSSF) on its consultation paper on the Guidance on Money Market Fund Weekly Liquid Asset Levels[2] (the Guidance).

ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Our members serve more than 125 million retail investors worldwide and have significant experience managing regulated funds, such as money market funds (MMFs), in jurisdictions around the world, including in Luxembourg.

ICI and its members are committed to working constructively with policymakers to support a resilient and well-functioning MMF sector. MMFs play an important role in the financial system by providing investors with a liquid, diversified, transparent cash management tool while also serving as a key source of short-term funding for governments, financial institutions, and companies.

For these reasons, any reform or supervisory measure should be carefully assessed against both its intended resilience benefits and its potential impact on the ability of MMFs to continue serving investors and supporting short-term funding markets. It is essential for the broader economy that MMFs remain well regulated, widely available, and offer the liquidity, diversification, and transparency investors expect.

ICI supports the objective of enhancing the resilience of MMFs and welcomes the CSSF's efforts to promote a consistent supervisory approach in line with the European Commission's recent report and frequently asked questions (FAQs). In finalising any guidance, we encourage the

[1] The Investment Company Institute (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in Europe, North America and Asia and manage fund assets of €51.2 trillion, including UCITS, mutual funds, exchange-traded funds (ETFs), closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Brussels, London, and Washington, DC.
[2] CSSF Guidance on Money Market Fund Weekly Liquid Asset Level

CSSF to ensure that the approach remains practical, proportionate, and coordinated for consistency among national supervisory frameworks.

ICI welcomes three key aspects the CSSF is considering in the proposed Guidance. First, in line with the European Commission's FAQ[3], the Guidance reaffirms that there should not be an automatic link between public debt CNAV and LVNAV liquidity buffer levels and the activation of liquidity management tools (LMTs). This clarification addresses one of the central concerns identified in the post-Covid reform debate that regulatory or supervisory thresholds can become cliff-edge triggers if investors perceive a fall below those levels as likely to result in the imposition of liquidity fees or redemption gates[4]. We would welcome an explicit reference in the Guidance to the Commission's clarification that public debt CNAV and LVNAV MMFs may use their liquidity buffers and temporarily fall below the 30% Weekly Liquid Asset (WLA) threshold without having to activate liquidity management tools[5]. Avoiding such an automatic link is essential to ensuring that liquidity levels are viewed as usable liquidity buffers rather than a hard liquidity floor.

Second, we welcome the coordinated approach taken by the CSSF, the Autorité des Marchés Financiers (AMF), and the Central Bank of Ireland (CBI), and the broad alignment of that approach with the direction of travel in the United Kingdom[6]. Convergence is critical to support the effective functioning of cross-border MMF markets and reduce the risk that divergent supervisory approaches limit investor choice, including by restricting UK investors' access to EU-domiciled MMFs. Taken together, the European Commission's FAQs and the coordinated Guidance proposed by the CSSF, the AMF and the CBI advance an important element of the FSB's 2021 recommendations by reducing the risk that liquidity thresholds operate as cliff-edge triggers, confirming that liquidity buffers are intended to be used and should not automatically trigger liquidity management tools.

Lastly, we support the use of 40% and 20% WLA levels respectively for public debt CNAV and LVNAV MMFs, and VNAV MMFs, as market resilience levels, provided the Guidance clearly recognises that liquidity buffers may be used when necessary and that temporary declines below these levels should be assessed in the context of the fund's overall liquidity position and circumstances. They enable funds to absorb redemption pressures by utilising securities that qualify as weekly liquid assets to meet redemption requests, rather than requiring the sale of longer-dated portfolio securities thereby helping to support the smooth functioning of short-term funding markets.

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[3] *See* European Commission Notice on the interpretation and implementation of certain legal provisions of the Money Market Funds Regulation (May 2026); FAQ 3. Available at: https://ec.europa.eu/finance/docs/law/260511-money-market-funds-faqs_en.pdf.

[4] *See* Financial Stability Board, Policy Proposals to Enhance Money Market Fund Resilience. Available at https://www.fsb.org/uploads/P111021-2.pdf

[5] See Supra note 3.

[6] *See* https://questions-statements.parliament.uk/written-statements/detail/2026-05-14/hlws6 and https://www.fca.org.uk/news/statements/reforms-uk-money-market-fund-regulation

ICI's views are set out in greater detail below.

I. The supervisory framework should explicitly support the usability of liquidity buffers, including in periods when WLA levels fall below the resilience levels

ICI recommends that the Guidance expressly recognise that liquidity buffers are intended to be used when necessary and that drawdowns of WLA, including below the 40% and 20% levels, may be appropriate in certain circumstances, including during periods of heightened redemption activity or market stress. Preserving the ability of MMFs to use liquidity buffers as intended is essential to the effectiveness of the regulatory framework and to the resilience of the funds themselves.

For liquidity buffers to effectively play their role, it is not their absolute level at a point in time that matters, but whether the buffers can be utilised when required by market conditions. A framework that does not guarantee this flexibility will dissuade managers from using WLA below the market resilience levels, incentivise premature investor redemption, and ultimately undermine the core objective of the Guidance. If the market resilience levels are treated as hard floors that must be maintained at all times, reintroducing the threshold effects the reforms seek to avoid, managers may respond to redemptions by seeking to preserve these ratios through the sale of longer-dated portfolio securities instead of using assets that already qualify as weekly liquid assets to satisfy redemption requests. Such an outcome undermines the intended purpose of liquidity buffers and reduces the effectiveness of the liquidity resources the framework is designed to promote.

The proposed linkage between deviations below the resilience levels and increased supervisory scrutiny for a prolonged period should therefore be carefully calibrated. A temporary decline below a resilience level does not, in itself, indicate heightened liquidity risk or market stress. Such situations may arise even under normal market conditions due to investor activity or other portfolio developments and should be viewed in the context of the MMFR framework, which envisages that liquidity buffers may be used when necessary.

Supervisory engagement should not be triggered solely by a quantitative metric. A more appropriate approach would be to assess liquidity risk based on a broader set of factors, that includes the scale and nature of outflows, portfolio structure, investor composition and concentration, market conditions, and stress-testing outcomes. These factors, if considered holistically, more closely represent the actual liquidity risk of a particular fund rather than a single WLA percentage.

The Guidance should also reinforce that temporary deviation below the resilience levels, particularly where they result from specific redemption activity or market stress do not, in and of themselves, indicate weakness and should not automatically give rise to adverse supervisory or market interpretation. In this regard, we welcome the Guidance's recognition that notification to the CSSF is only expected where a deviation persists for more than 10 business days or is expected to be prolonged or substantial, which helps avoid threshold effects arising from short-

term fluctuations in liquidity levels. This clarification is important to avoid stigma effects and threshold-driven behaviour. If investors or intermediaries come to view any movement below 40% or 20% as a negative signal, the market resilience levels could themselves become a source of redemption pressure, contrary to the objective of enhancing resilience.

Expectations regarding the reconstitution of liquidity buffers should likewise be proportionate and responsive to market conditions. Managers should be permitted to rebuild buffers in an orderly manner, taking into account portfolio liquidity, prevailing market conditions, and the best interests of investors. An expectation of rapid rebuilding could discourage the use of buffers in the first place and could contribute to procyclical demand for the same short-term instruments across the market.

II. The Guidance should clarify how the 40% and 20% WLA resilience levels are intended to operate in practice

ICI supports the use of WLA levels of 40% for public debt CNAV and LVNAV MMFs and 20% for VNAV MMFs as supervisory reference points, consistent with the European Commission's identification of these market resilience levels. However, realising the intended benefits of the Guidance will depend on how these levels are communicated to the market and reflected in supervisory practice.

To avoid uncertainty, the CSSF should clarify how the market resilience levels are expected to operate in practice. The Guidance indicates that managers will need to take these levels into account when calibrating liquidity risk management frameworks and managing fund liquidity. At the same time, it should make clear that temporary declines below these levels do not, in and of themselves, indicate heightened liquidity risk or require immediate supervisory intervention. Such clarification is important to ensure that liquidity buffers remain available for use when needed and continue to serve their intended role in supporting fund resilience.

A framework in which market participants perceive that a temporary decline below the 40% or 20% market resilience levels automatically triggers supervisory escalation, creates an expectation that liquidity management tools will be deployed, or signals that a fund is no longer operating appropriately can have significant adverse consequences. Such perception could discourage the use of available liquidity in periods of stress and would increase focus on maintaining headline ratios rather than managing liquidity risk dynamically in the interests of investors. Such an outcome would weaken, rather than strengthen, the resilience of MMFs and recreate concerns associated with threshold-based effects observed in previous reform debates.

Liquidity buffers are intended to provide funds with capacity to meet redemption activity during periods of stress by drawing on available liquidity rather than resorting to asset sales or other actions that could adversely affect investors or markets. Supervisory guidance should therefore reinforce this application of buffers and not discourage their appropriate use.

The CSSF's Guidance should expressly recognise that liquidity buffers may be used when necessary and that a temporary decline below the market resilience levels should be assessed in the context of the fund's overall liquidity position and circumstances. Consistent with the European Commission's recent clarification of the MMFR, supervisory assessments should recognise that a decline below relevant liquidity thresholds does not, in itself, require the activation of LMTs and that managers should be able to use available liquidity buffers while taking appropriate steps to restore them over time[7].

III. Liquidity calibration should remain fund-specific and avoid reliance on a single market-wide metric

ICI recommends that the Guidance expressly preserve fund-specific liquidity calibration and confirm that supervisory assessments will remain risk-based rather than driven primarily by a single market-wide benchmark.

Liquidity risk management in MMFs is inherently fund specific. Appropriate liquidity levels vary depending on a fund's investor base, asset composition, currency, dealing patterns, and use case. A public debt CNAV or LVNAV MMF used by institutional investors for operational cash management may present different liquidity dynamics from a VNAV MMF with a different investor base or portfolio composition. These differences are directly relevant to how managers calibrate liquidity buffers and should remain central to supervisory assessment.

MMF managers already operate within a robust liquidity risk management framework under the MMFR, including requirements relating to daily and weekly liquidity, stress testing, know-your-customer procedures, and ongoing portfolio monitoring. The framework is designed to allow managers to assess liquidity needs based on the characteristics of each fund and its investors, taking into account factors such as investor concentration, expected redemption patterns, seasonal cash flow dynamics, portfolio composition, and market conditions.

As a result, different funds may appropriately maintain different liquidity levels based on their particular liquidity risk profile and investor base. These practices have been tested through multiple periods of market stress. A static, market-wide WLA benchmark cannot substitute for this fund-specific assessment[8].

Moreover, market-wide averages may obscure important differences across the fund universe. Even if the industry overall holds liquidity above the regulatory minimum, individual funds may

[7] *See* Supra note 3.

[8] Figures in the Commission report on MMF show that WLA levels vary significantly across LVNAV funds based on their liquidity risk profiles. The variation reaches up to 15 percentage points, reflecting differences in liquidity risk management approaches and fund-specific characteristics. This demonstrates that the resilience of an LVNAV fund cannot be assessed solely by its WLA level, but must be evaluated in light of the fund's overall characteristics and liquidity risk profile.

appropriately operate in a completely risk-appropriate manner at different liquidity levels based on their own liquidity risk management framework.

Managers should retain discretion to tailor the calibration of liquidity buffers based on fund-specific factors, and supervisory engagement should take those factors into account rather than treating a common numerical benchmark as determinative.

IV. Supervisory convergence across the EU and alignment with the UK should be preserved and reinforced

ICI welcomes and supports the coordination undertaken by the CSSF, the AMF, and the CBI and the issuance of aligned consultations. Supervisory convergence is a prerequisite to the effective functioning and strengthening of European capital markets. Divergent supervisory practices increase operational complexity, constrain cross-border distribution, and reduce the efficiency of the Single Market, particularly for fund structures that operate across multiple jurisdictions.

Maintaining alignment beyond the consultation phase will be equally important. Differences in how the Guidance is interpreted or applied across jurisdictions could recreate fragmentation even where the underlying framework is formally consistent. Once adopted, it is imperative that the Guidance be implemented in a manner that supports consistent supervisory expectations across the principal EU MMF jurisdictions, including with respect to the treatment of temporary deviations below resilience levels, the use of liquidity buffers in stress, and the proportionality of any additional supervisory engagement.

For some funds, moving to operate consistently at or above the proposed market resilience levels could require meaningful changes to portfolio construction, the available pool of eligible short-term instruments, and fund yield. The CSSF's Guidance should therefore provide an appropriate implementation period to allow managers to make any necessary portfolio adjustments in an orderly manner and in a way that is consistent with the interests of investors and clearly state that the market resilience levels are one input into a broader risk-based assessment.

Alignment with the United Kingdom is also an essential component of a coherent policy outcome. The EU and UK MMF markets are highly interconnected, with approximately 90% of the sterling-denominated MMF markets by assets under management (AUM) being domiciled and authorised in the European Union. Due to the markets' interdependence, changes to liquidity expectations in one market can have direct implications for the other, including for market access, investor choice, and the availability of MMFs in the UK and EU.

Divergence in liquidity frameworks or supervisory expectations between the EU and UK would risk creating competitive distortions, fragmenting liquidity, and reducing investor choice. The emerging convergence of supervisory approaches across major MMF jurisdictions, including the UK FCA's support for 40% and 20% WLA market resilience levels, is therefore a positive

development that should promote greater regulatory consistency. Preserving this alignment should remain a key objective as the framework is finalised and implemented.

V. Conclusion

ICI supports the CSSF's objective of enhancing MMF resilience and welcomes the coordinated approach taken with the AMF and the CBI, as well as the alignment with the ongoing review of the UK framework. Properly implemented, market resilience levels can support risk management and supervisory awareness without compromising the ability of MMFs to serve investors and short-term funding markets.

ICI remains committed to working with the CSSF to strengthen the MMF industry for the benefit and protection of investors and the performance of broader financial markets. We look forward to future engagement on the MMF reforms as the CSSF considers the feedback received and finalises the Guidance. To discuss feedback or answer any questions, please feel free to reach out to me, Corrado Camera at corrado.camera@ici.org, or Simon Jordan-Meille at simon.jordanmeille@ici.org

Sincerely,
/s/ Tracey Wingate
Chief Global Affairs Officer
Investment Company Institute