By email: liquidity@c-ebs.org

Committee of European Banking Supervisors
Tower 42 (Level 18)
25 Old Broad Street
London EC2N 1HQ

31 October 2009

Dear Sirs

RE: Consultation Paper on Liquidity Buffers & Survival Periods

The Institutional Money Market Funds Association (IMMFA) welcomes the opportunity to respond to the consultation on liquidity buffers and survival periods.

IMMFA is the trade association which represents the European triple-A rated money market funds industry. Triple-A[1] rated money market funds are managed according to rigid and transparent guidelines, in order to offer safety of principal, liquidity and competitive money market returns. Increasingly, these funds are used by institutional investors to manage liquidity and act as important alternatives to cash accounts. Since its inception in 2000, IMMFA's funds in Europe have grown from around €40 billion to over €425 billion (as at July 2009). Further information on the association and triple-A rated funds are available on the IMMFA website, www.immfa.org.

Money market funds are used by a wide range of institutions to provide liquidity, and for accounting purposes are considered to be the equivalent of cash. Whilst our members will not be subject to the proposals within the consultation paper, the money market funds which they offer are used by credit institutions, and are currently eligible for liquidity purposes within the UK. We comment therefore on those aspects of the consultation which impact the utilisation of money market funds by credit institutions.

We note the proposal in the consultation that the liquid assets buffer should comprise only those assets which are both highly liquid in private markets and eligible at central bank standard facilities (such as unencumbered government bonds). We propose however that government money market funds should be eligible for inclusion in the liquid assets buffer.

Government money market funds are so called because they are permitted to invest only in high-quality government debt. They are also subject to the same investment restrictions

[1] References to money market funds in this letter means funds rated specifically AAAm by Standard & Poor's, Aaa/MR1+ by Moody's Investors Service and AAA/V1+ by Fitch Ratings – that price on an amortised accounting basis.

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which apply to the wider IMMFA money market fund universe, e.g. the fund must have achieved a triple-A rating and must have a maximum weighted average maturity of not more than 60 days. By virtue of these investment restrictions, all of the assets within a government money market fund would meet the eligibility criteria as drafted in the consultation paper for inclusion within the liquid assets buffer.

As an indication of the liquidity of a government money market fund, during the four week period immediately following the bankruptcy of Lehman Brothers, assets invested in such funds increased by 94% (to over €100 billion). This is a clear indication of the acceptance of investors – including financial institutions – that these funds provide same-day liquidity in illiquid markets.

Whilst shares in a money market fund are not eligible collateral with a central bank, government money market funds only invest in government debt. The underlying assets of these funds are therefore eligible collateral with a central bank. A fund is simply a wrapper around the underlying assets. Any investor in the fund has a legal entitlement over a proportion of the underlying assets, where that proportion is representative of the size of his holding relative to the total size of the portfolio.

We also note the proposal that banks will have to demonstrate adequate diversification in the total composition of the liquid assets buffer, and that banks should avoid holding large concentrations of single securities.

A money market fund, as a collective investment scheme, is inherently diversified. All money market funds represented by IMMFA are funds authorised under the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive 85/611/EEC and are therefore subject to minimum diversification requirements. The requirement for a triple-A rating imposes additional diversification requirements which exceed the minimums contained with the UCITS Directive. Such money market funds are therefore a viable solution where an investor wishes to diversify assets.

This diversification is a key differentiator when investment in a fund is compared against direct investment in a single asset even if that single asset is a government debt security. The impact of any risk associated with an underlying asset of a fund is reduced by virtue of it representing only a small proportion of the portfolio, and then the risk is spread across all investors in the fund. Where a fund is invested only in government securities, this should further reduce the risk associated with such securities.

We advocate therefore that where a money market fund is invested only in government securities, investment in that fund should be eligible for inclusion in a liquid assets buffer. Consequently, we request that the proposals are amended to reflect this.

We would welcome the opportunity to discuss these issues should further clarification be required.

Yours faithfully

Nathan Douglas.

Nathan Douglas
Secretary General