

Markets and Funds Policy Division
Central Bank of Ireland
New Wapping Street
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By email only to fundspolicy@centralbank.ie

Dear Markets and Funds Policy Division,

Aviva Investors response to CP 168: Guidance on Money Market Fund Weekly Liquid Asset levels

Thank you for the opportunity to respond to the CBI's consultation on the proposed Guidance within CP 168.

Introduction

Aviva Investors welcomes the opportunity to respond to Consultation Paper 168 issued by the Central Bank of Ireland on guidance relating to Money Market Fund (MMF) weekly liquid asset (WLA) levels. We are supportive of the Central Bank's objective to enhance MMF resilience through a proportionate and evidence-based framework that maintains the effectiveness and stability of the product.

Executive Summary

Overall, we support the proposals as a graduated, judgement-based approach which strengthens market resilience while preserving the core functioning of MMFs and avoiding unintended behavioural consequences associated with rigid thresholds.

We are supportive of the proposed increase in minimum liquidity levels. We believe that recent periods of market stress (e.g. UK LDI episode in 2022) demonstrated that the current framework is fundamentally robust, and therefore we view the proposed increase as a recalibration rather than a structural overhaul.

However, it is important to avoid cliff-edge dynamics where investors interpret WLA levels approaching or falling below regulatory levels as signals of stress and subsequently accelerate redemptions. The guidance must therefore delink regulatory liquidity thresholds and the consideration of liquidity fees or gates through clear communications, and confirm that liquidity buffers are intended to be usable, including in periods of stress.

Whilst we are also supportive of the introduction of supervisory attention thresholds, we urge that the calibration and application of these avoid de facto hard floors. For instance,

supervisory engagement should not automatically commence at 40% weekly liquid asset level; the 35-40% weekly liquid asset level should instead serve as a useful guide for calibrating when supervisors should intervene, which should be a judgement-based decision. Similarly, whilst the 10-day grace period below the market resilience level may be a useful supervisory reference point, we advocate for the guidance to set clear supervisory expectations rather than hard rules that market participants may treat as new bright lines.

Finally, more intensive supervisory engagement should be reserved for situations where there is clear evidence of emerging risk, including persistent or repeated operation below the market resilience level without adequate explanation, a material decline towards the formal regulatory minimums, evidence of disorderly market conditions, or where the manager is unable to provide a satisfactory explanation grounded in its liquidity risk management framework. Any additional reporting requirements should be carefully calibrated and only requested where there is a clear supervisory need.

Confidentiality

In considering this response, please have reference to the confidentiality exemption set out in the Annex to this document.

Responses to consultation questions

Question 1: Do you agree with the proposed Guidance on liquidity risk management set out in Part 1 of the attached guidance document? Please explain your response.

Aviva Investors is supportive of the proposed increase in minimum liquidity levels.

The proposed weekly liquidity level is more than sufficient to meet the liquidity needs of MMFs under both normal and stressed market conditions. Our analysis, as documented in our response to the EC consultation, showed that only in isolated cases was current liquidity stretched.

Recent periods of market stress, including March 2020 and the UK LDI episode in September 2022, demonstrated that MMFs were able to continue to meet redemption requests without the need for suspension of redemptions. This supports the view that the current framework is fundamentally robust and that the proposed increase represents a calibration rather than a structural overhaul.

Importantly, the effectiveness of higher minimum liquidity levels depends on maintaining a clear separation between regulatory liquidity thresholds and the consideration of liquidity fees or gates. Mechanistic linkages between thresholds and investor-facing measures can create cliff-edge dynamics, where investors interpret regulatory levels as signals of stress and may accelerate redemptions as those thresholds are approached. It is of critical importance that regulatory communications make it clear that delinking is achieved in practice through the new guidance and any accompanying commentaries.

It is also important that the guidance confirms, as intended, that liquidity buffers are intended to be usable. Managers should be able to draw on buffers, including in periods of stress, where doing so is in the best interests of investors and consistent with the requirements of MMFR. The framework should avoid any implication that a temporary, unexpected, fall below a reference level, or even below a regulatory minimum, automatically requires the use of liquidity management tools or other investor-facing measures.

Clear guidance will also be important in supporting consistent investor communication. WLA is a transparent and visible metric, and there is a risk that investors may interpret the new market resilience level as a stress signal unless the guidance makes clear that it is not a hard threshold and that buffers may be used in an orderly manner.

A higher minimum liquidity buffer, combined with the removal of such mechanistic linkages, should reduce incentives for pre-emptive redemptions, reinforce investor confidence and support more stable market functioning.

In this context, the proposed liquidity levels represent a proportionate and appropriate enhancement to an already resilient regulatory framework.

Question 2: Do you agree with the proposed Guidance on increased supervisory scrutiny and engagement set out in Part 2 of the attached guidance document? Please explain your response.

Aviva Investors supports the introduction of supervisory attention thresholds but considers that their calibration and application should avoid creating de facto hard floors.

A proportionate framework should clearly distinguish between the formal MMFR minimum requirements, (30% for an LVNAV) the 35-40% range referenced in the European Commission's analytical work as a level at which stable NAV MMFs were generally able to withstand severe redemption shocks, the 40% "market resilience" reference point, and the circumstances in which enhanced supervisory engagement is warranted. These concepts serve different purposes and should not be conflated.

Supervisory engagement should not automatically or mechanically commence at 40%, as this risks turning the resilience benchmark into a de facto floor and recreating the type of cliff-edge effects that reforms are seeking to address. In our view the recognition from the Commission that resilience can be achieved at 35-40% WLA can serve as a useful guide for calibrating when supervisors should intervene.

Supervisory engagement should be judgement-based, taking account of the duration, cause and trajectory of any movement below the market resilience level, the manager's explanation, prevailing market conditions and the fund's liquidity risk management framework. A temporary and well-explained movement below 40% should not, in itself, trigger escalation.

Defined periods, such as a 10-day period below the market resilience level, may be useful as a supervisory reference point. However, we are conscious that over time, fixed periods can acquire behavioural significance of their own and may produce unintended and as yet unknown effects. It is therefore important for the guidance to set clear supervisory expectations, including the types of circumstances in which managers should engage with the Central Bank, rather than create hard rules that market participants may treat as new bright lines.

More intensive supervisory engagement should therefore be reserved for situations where there is clearer evidence of emerging risk, including persistent or repeated operation below the market resilience level without adequate explanation, a material decline towards the formal regulatory minimums, evidence of disorderly market conditions, or where the manager is unable to provide a satisfactory explanation grounded in its liquidity risk management framework.

Any additional reporting requirements should also be carefully calibrated. Additional ad hoc or recurring reporting imposes operational cost on managers and, ultimately, on the industry and investors. The guidance should therefore avoid creating a parallel reporting regime and should rely, wherever possible, on existing regulatory reporting, existing fund disclosures and targeted information requests where there is a clear supervisory need.

Annex

Freedom of Information Act 2000: confidentiality exemption

In respect of the exemptions afforded by the above referenced Act, we consider that this document is exempt from disclosure, in accordance with s.41 of the Act, because the information contained therein is confidential original content formulated by employees of Aviva that has not been made publicly available.

We respectfully request that, should a request for release of information contained in the confidential response be considered, you consult with us in determining whether disclosure is required under the auspices of the Freedom of Information Act 2000 or otherwise.