

CBol Consultation Papers on 'Guidance on Money Market Fund Weekly Liquid Asset Levels'

HSBC Asset Management welcomes the opportunity to respond to the Central Bank of Ireland's ("CBol") consultation on the proposed Guidance on Money Market Fund Weekly Liquid Asset Levels. As a long-standing money market fund manager with an established relationship with the Central Bank of Ireland, we support measures that enhance the resilience of money market funds and strengthen investor confidence, while preserving the ability of funds to operate effectively across a range of market conditions.

Money market funds play an important role in supporting the cash management and liquidity needs of a diverse investor base, including corporates, financial institutions and public sector entities. We therefore consider it important that the final guidance continues to promote robust liquidity risk management and sound supervisory engagement, without creating unintended market dynamics (including "bright line" effects) that could discourage the appropriate use of liquidity buffers in periods of stress.

Our responses below are intended to be constructive and practical and reflect our experience of managing liquidity across both normal and stressed market environments. We would welcome further engagement with the Central Bank of Ireland as the guidance is finalised and implemented.

Please see below for our responses

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.

We support the guidance set out in Part 1 in relation to market resilience, including the proposed weekly liquid asset (WLA) levels of 40% for LVNAV money market funds (and 20% for VNAV money market funds). These levels are consistent with the findings of the European Commission in its review of the EU Money Market Funds Regulation (MMFR) COM (2026) 350 final, as well as with observations from other regulatory and supervisory bodies. In our experience, these levels are also broadly aligned with an appropriate degree of liquidity to meet fund objectives under both normal and stressed market conditions, including the provision of liquidity to investors. We also acknowledge the importance of the "know your customer" requirements under the legislation. Portfolio management processes should be calibrated to reflect the composition of the shareholder base, including the degree of investor concentration and sectoral diversification, given the direct relevance of these factors to liquidity risk.

As the Commission observed, the industry has adapted to managing weekly liquid assets at, or above, 40%. It is important, however, that the proposed 40% market resilience level does not become treated as a binding minimum in practice, thereby leading to an unintended upward "ratchet" effect (i.e., a buffer being maintained above an additional buffer). We consider it important that the market resilience WLA level is clearly positioned as a usable buffer rather than an investor-facing "bright line". We do not consider that a "bright line" outcome is the intention of the proposed market resilience levels.

Accordingly, the final guidance should make explicit—particularly for the benefit of investors—that market resilience contemplates the practical use of liquidity buffers, and that 40% should not be interpreted as a hard threshold.

Finally, and consistent with existing regulation (including the Commission's FAQs), we encourage the guidance to be specific regarding the use of buffers generally, not solely the

additional 10% above the current regulatory minimum. Given that the regulatory minima will continue to apply, it is important to clarify that, where the regulatory minimums are breached, the MMFR provides for a series of steps before the fund's board is required to consider the imposition of liquidity fees or redemption gates. In such circumstances, the manager must prioritise prompt remediation while taking due account of unitholders' best interests.

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.

The proposed approach to supervisory scrutiny and engagement is reasonable insofar as it is intended to facilitate the use of liquidity buffers while anticipating appropriate remedial action to replenish WLA levels. We agree that it is appropriate for the manager to engage with the CBol where there is a persistent deviation, and that the manager should be in a position to provide a relevant explanation or justification. Similarly, where a prolonged period of deviation is anticipated, it is appropriate for the manager to communicate this to the national competent authority (NCA).

We are, however, less supportive of the proposed ten-day timeframe (or "cure period"). While a defined period may provide process certainty, there are aspects of such an approach that warrant further consideration, particularly when compared with a holistic quantitative and qualitative, risk-based engagement between supervisor and manager:

- Reduced supervisory flexibility: there may be circumstances in which the CBol would reasonably wish to increase scrutiny and engage with the manager well in advance of the expiry of a ten-day period.
- Risk of investor "threshold" behaviour: WLA levels are visible to investors. A formally articulated cure period may encourage investor monitoring and behaviour similar to that associated with the current "bright line" perception at 30% WLA.
- Unintended behavioural incentives: a ten-day cure period could be interpreted as implying that a fund need only maintain WLA above 40% on one day in each ten-day period, which may not align with the policy intent.