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Felix Grenfell Bozek and Liam Browne,
Financial Conduct Authority,
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Submitted via email: cp23-28@fca.org.uk .

Re: CP23/28: Updating the regime for Money Market Funds

Dear Mr. Grenfell Bozek, dear Mr Browne:

State Street Global Advisors ("SSGA"), the investment management division of State Street Corporation,[1] appreciates the opportunity to provide comments on the Consultation Paper 23/28 on Updating the UK regime for Money Market Funds ("MMFs") issued by the Financial Conduct Authority ("FCA").

With $4.1 trillion in assets under management, SSGA is the world's fourth-largest asset manager[2]. Our cash offering in EMEA comprises Irish-domiciled MMFs, a combination of PDCNAV and LVNAV structures denominated in GBP, USD and EUR, which are sold to UK domiciled investors under the Temporary Marketing Permissions Regime ("TMPR"), for a combined AuM surpassing £35bn.

MMFs play an important role in the financial services system and the wider economic ecosystem. They are a low cost, efficient, scalable, and transparent cash management investment tool for investors and an important source of funding for both public and private sector issuers. For investors, such as corporate treasurers, non-bank financial institutions, municipal and local authorities and asset managers, MMFs provide operationally simple, cost-effective investment vehicles that are principally used for cash and liquidity management purposes, such as payroll and day-to-day expenses. Our comments in this letter are primarily informed by the objective of avoiding unintended consequences in the new UK MMFs regime which could create worse investors' outcomes.

SSGA is supportive of the various ongoing efforts by policymakers to ensure and improve the resilience of MMFs. We believe that the regulatory framework introduced by the EU

[1] Headquartered in Boston, Massachusetts, State Street Corporation is a bank holding company that through subsidiaries serves institutional investors through two core business lines, investor servicing (the provision of custody and related services) and asset management. State Street Bank and Trust Company, State Street's principal banking subsidiary, had approximately $41.8 trillion in assets under custody and/or administration as of December 31, 2023.

[2] Assets under management as of 31 December 2023. For more information, please visit SSGA's website at www.ssga.com.

Money Market Fund Regulation is effective and has enhanced the overall resilience of MMFs, but where needed we support targeted and proportionate reforms that further strengthen the sector. As a global asset manager, we are strongly in favour of consistent outcomes and regulatory convergence across jurisdictions, as this is very much in the interest of end investors, particularly in the UK where they rely for the most part on EU-domiciled MMFs.

As described below, overall we welcome the constructive approach taken by the FCA in its Consultation Paper, which demonstrates that comments expressed by the industry in the context of its previous Discussion Paper 22/1 on Resilience of MMFs have been taken into consideration. Nonetheless, in a constructive spirit, we would like to highlight the following with respect to the proposed regulatory approach:

(i) **The proposed increase in minimum liquid assets is disproportionally high**. We are not convinced that the experiences of the recent stress events justify such an increase, especially in weekly liquid assets ("WLAs"). We consider a level of 50% WLA to be difficult for the market to absorb and operationally challenging for the sector to manage in all market conditions. WLAs levels in the 30 % - 40% range seem more adequate.

(ii) **We continue to believe that any substantial increase in minimum liquid assets should be accompanied by a facility similar to the US Federal Reserve's Reverse Repurchase Program ("RRP").** This will help remove the challenges in managing liquidity at high levels, notably at quarter or year end, when the capacity of the market to absorb cash diminishes considerably.

(iii) **We strongly support the elimination of the "bright lines" which will help make liquidity buffers usable and increase MMF resilience.** Furthermore, we would recommend increasing the transparency and education around the potential temporary use of the liquidity buffer by an MMF which would help reducing the stigma attached to a fund using its liquidity buffers.

(iv) **We welcome the recognition by the FCA that there has not been strong evidence that LVNAVs are more vulnerable to outflows than other types of MMFs**. Accordingly, it is not proposed to remove or change existing stable NAV operation, and instead specific conversion risks associated with the LVNAV structure are rightly dealt with more proportionate interventions.

(v) **Cross border fragmentation in the regulatory framework for MMFs will lead to less positive investors and financial stability outcomes.** Smaller and segmented MMFs sectors will be less stable due to more volatile flows, with a smaller pool of assets and a more concentrated

investor base. Operationally this will prove inefficient, potentially requiring separate and parallel liquidity and risk management processes.

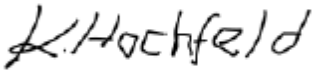
(vi) **We strongly reiterate that regulatory convergence between the EU and the UK should remain a priority for regulators and that any future equivalence determination should be outcome-based**. It is of paramount importance that UK investors are not deprived of the option to access EU-domiciled sterling MMFs and authorities should come together towards a joint outcome.

In the questions below, we expand on the above issues and address the specific questions of the Consultation Paper. We would also like to refer to the letter addressed to His Majesty's Treasury ("HMT") on 24 January 2024 commenting on the "Draft Statutory Instruments on Money Market Funds Regulations", where State Street expressed its concerns as regards the ability of MMFs domiciled overseas to access the UK market in the context of the equivalence determination that will have to be made by HMT at the end of the TMPR.

SSGA is willing to continue being an active and constructive participant in this debate, and we remain supportive of efforts to improve the resilience of MMFs, as well as broader short-term funding markets. We look forward to contributing to these discussions with UK policymakers.

Should you wish to discuss any aspect of our response, please do not hesitate to contact us or a member of our teams.

Sincerely,



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Responses to individual questions

Q1: What, if anything, do you consider to be unintended consequences of this intervention?

SSGA considers the FCA's Consultation Paper to be overall a carefully considered proposal which rightly focuses on MMFs ability to withstand severe but plausible shocks. Most importantly, we agree that the policy response should aim at fund liquidity as a way to increase resiliency, instead of focusing on liability-side policy options.

However, increases in portfolio liquidity requirements should be appropriately calibrated to avoid potential unintended consequences which would reduce managers' flexibility and "trap" liquidity within MMFs. Disproportionally high requirements will lead to declining yields and reduced investor appetite and demand, and paradoxically could also increase the overall stress on the system if the market is not able to absorb the additional higher amounts of liquidity.

As discussed under Question 5, we believe that the proposed significant increases in minimum daily and weekly liquidity to 15% and 50% respectively are unnecessarily high and not justified based on data and historical experience. We do not view the current regulatory minimum liquidity requirements as the key factor in MMF stress during March 2020 or the LDI stress event. The FCA's proposal seem to rest on modelling by the Bank of England which we believe has some limitations as we explain further below.

Rather it was the regulatory-imposed inability of MMFs to use liquidity buffers when needed that caused stress in the market, especially during March 2020. In practical terms, this resulted in the counterintuitive scenario whereby MMFs had a substantial portion of their portfolio invested in WLA that was unusable. MMFs became forced sellers in a deteriorating market, in order to hold additional liquidity over and above the regulatory thresholds, as a means to further assuage investor concerns. This has now been resolved by the FCA with the proposal to remove the link between the possible imposition of gates and fees from the liquidity thresholds, and this alone should already increase available liquidity, and therefore MMFs resilience, without the need for an additional radical increases in WLA.

Moreover, we note that while the FCA might be tempted to follow in the example set by the U.S. Securities and Exchange Commission ("SEC"), UK and EU markets are much smaller and less liquid than in the U.S. Given the scarcity of assets qualifying for WLA, higher minimum WLA requirements effectively mean that managers will need to hold more overnight liquidity. At a 50% WLA, with reduced roll-down, finding sufficient cash overnight will be challenging given the absence of a RRP-like facility in Europe. This could become particularly problematic around quarter and year end, and could result in MMFs having to reject subscriptions, leaving investors with less (and potentially more risky and less transparent) cash management solutions.

In light of these risks, SSGA would recommend that the FCA reconsiders its increases to minimum daily and weekly liquidity to levels that are more manageable for fund managers and easier to absorb by the market. As we explain below, WLA levels in the 30% - 40% range would be sufficient to meet the policy goals of the FCA while avoiding any unintended consequences.

Q2: Do you agree with our proposal to 'delink' stable NAV MMFs' liquidity buffers? Please give your reasons.

As mentioned above, we strongly agree with the proposal to "delink" stable NAV MMFs' liquidity buffers. Removal of the "bright line" will reduce investors stigma around WLA levels and will make liquidity more usable.

As we observed during recent stress market events, MMFs became forced sellers in a deteriorating market in order to hold additional liquidity over and above the regulatory thresholds. In order to prevent any investor concerns, minimum liquidity requirements became a hard limit in all circumstances, making liquidity effectively unusable. In turn, this may have encouraged investor redemptions exacerbating run-risks.

The whole purpose of liquidity requirements should be to create buffers that can and should be available for use by MMFs to meet redemptions in times of stress, rather than act as a floor. For this reason, while "delinking" will help in increasing managers' flexibility in managing their liquidity buffers, as we explain in question 3 below, work should continue to make sure that buffers are effectively used as intended in stress situations.

Q3: Do you agree that we should revoke FG22/3, but retain its guidance on managers returning the fund to the relevant regulatory minimums as Handbook guidance in MMFS?

We agree that the guidance on managers returning the fund to the relevant regulatory minima should be retained. The guidance is helpful in that it clarifies elements which may be concerning to investors and notes the broad requirement that any such fund 'adopt as a priority objective the correction of that situation'.

Furthermore, we would recommend increasing the transparency and education around the potential temporary use of the liquidity buffer by an MMF. As part of that, the FCA could provide additional regulatory guidance and clarification that MMFs can make use of their liquidity buffers in times of stress. Such guidance would help with reducing the stigma attached to a fund using its liquidity buffers and dipping below the WLA threshold.

If there is an explicit acknowledgment that liquidity buffers are usable, this would automatically increase funds' resiliency and managers' ability to meet unforeseen redemptions.

Q4: Do you have any overall comments on our policy position on other options to increase the usability of MMF liquidity resources?

As a matter of fact, one option that has not been considered by the FCA is the ability to average liquidity over a certain period. This could be beneficial especially during the periods when liquidity is harder to manage. Such a measure would allow MMFs to front-load liquidity over early parts of a month/quarter to carry lower liquidity into these stressed periods, so long as the average minimum is met overall.

Q5: Do you agree with the proposed increases in minimum daily and weekly liquidity to 15% and 50% of assets respectively for all UK MMF types? Please explain your reasoning.

SSGA believes that the proposed increase in minimum liquidity requirements, and particularly the 50% WLA, is too high, disproportionate and not justified by historical experience. It is important that the WLA requirement remains achievable at all times and in all market conditions, and for this reason we believe that WLA levels in the 30% - 40% range would be sufficient to ensure the adequacy of liquidity provisions.

In the past years, and since the March 2020 stress event, SSGA has operated its GBP MMFs at levels which were comfortably in the 30% - 40% range, which in our view were adequate to ensure the resilience of our funds to severe but plausible shocks while remaining operationally manageable.

We would like to summarizes the reasons why, in our view, the 50% WLA requirement is not justified:

- **Benefits of delinking**. The "delink" between WLA thresholds and activation of fees and gates will already make available liquidity significantly more usable. In our view, this change has not been taken adequately into consideration by the FCA and seems not to have been integrated in the Bank of England modelling that underpins the 50% WLA figure. Basing future WLA requirements only on historical figures fails to take into account the benefits of delinking.

- **Historical outflows.** Outflows from GBP funds both in March 2020 and the LDI stress even in 2022 do not justify such a significant increase in WLA. As shown in the data provided by the Institutional Money Market Funds Association ("IMMFA") maximum outflows observed during the March 2020 event across GBP funds were well below the proposed 50% WLA figure, and more in line with levels in the range of 30% - 40% WLA[3].

- **Parallelism with the U.S. is misplaced.** The SEC adoption of a 50% DLA figure should not lead the FCA to assume that the same liquidity levels should be aligned globally. There are very significant differences in U.S. and UK/EU MMFs sector,

[3] Source: IMMFA response to FCA Consultation Paper CP23/28.

and especially in the way U.S. markets are structurally better placed to absorb liquidity thanks to the existing of the RRP facility. In Europe, without an equivalent facility, and with limited supply of government securities, 50% WLA would be extremely challenging considering that the average WLA at end 2023 was 37%[4], and risk exposing markets to serious dislocations.

- **Bank of England modelling.** We would like to invite the Bank of England and the FCA to share more details on the assumptions and data used to build the model whose results suggested a "total WLA levels in the region of 50-60%". From reading Annex 4 in the FCA Consultation Paper, it seems that the modelling fails to take into account the benefits of delinking and it is too conservative in making its WLA recommendation on the least resilient fund, applying the worst case to the whole industry. We believe instead that WLA levels should be calibrated based on the industry average.

Given the above reasons, we recommend that the FCA considers WLA levels in the range of 30% - 40%, which would represent a more targeted and economically efficient approach. Even at these lower WLA levels, and before investors get used to the new regulatory framework and delinking is appropriately internalized in investment decisions, for a period fund managers will still be likely to hold in excess of the requirement in normal times.

In all events, an appropriate transition period will be required to give the market sufficient time to gradually adjust to the higher levels of required liquidity.

Q6: Do you agree with our assessment of the market impact? Are there other factors we should consider?

We strongly disagree with the conclusions of the market impact of liquidity changes conducted by the FCA. The Consultation Paper notes that: "*Sterling MMFs have consistently held close to 50% WLA in aggregate since March 2020. This suggests the actual required increase in assets would be much smaller than suggested by the increase in minimum requirements*.[5]"

This assumption does not take into consideration that in the current situation fund managers have been benefitting from a historic change in the interest rate environment which has helped funds in voluntarily holding in excess of the minimum requirement, while benefitting from the flexibility of going below these levels when capacity constraints hit or market environment becomes more challenging. What the FCA proposes instead would be to effectively lock liquidity to a minimum of 50% at all times.

Q7: Do you agree with the resulting balance between daily and weekly liquidity requirements? How does the balance between these elements impact resilience?

[4] Source: IMMFA/iMoneyNet.
[5] Source: FCA Consultation Paper 23/28, page 26.

We believe that if DLA levels are raised to 15%, this should be adequate to already address the largest daily redemption seen by GBP MMFs in the dash for cash, as concluded by the Bank of England analysis.

WLA is also an important measure as it replenishes DLA and helps the fund withstand prolonged period of stress, but as explained in Question 5, 50% seems an unnecessarily high level to be held at all times, especially if accounting for the benefits of delinking. In fact, given the scarcity of WLA eligible assets, a level of 50% would necessarily result in MMFs having to hold far in excess of their DLA requirements.

Q8: Do you agree that the stable NAV MMF WLA derogation (to include highly liquid government debt as WLA up to a limit of 17.5 % of total assets) should be extended to VNAVs? Please give reasons for your answer. Do you have views on what public sector debt should be permitted in this derogation?

We agree that it is appropriate to extend the WLA derogation to VNAVs if the FCA retains its approach of consistency in liquidity requirements across MMFs types. What constitutes WLA buffers is a crucial question if levels are to be raised significantly as proposed.

More generally however, we believe that the current WLA derogation is set at an arbitrary level of 17.5%, which has no particular economic rationale and only represents a legacy from EU MMFR. Given the scarcity of WLA eligible assets, we believe that the FCA should consider raising the 17.5% derogation to 25%, in order to make it easier for fund managers to accommodate the higher levels of liquidity.

Q9: Do you agree that the WLA derogation allowing VNAV MMFs to include money market instruments or units of other MMFs within their WLA up to a limit of 7.5 % of total assets should be removed?

As said in the previous response, we believe that what constitutes WLA buffer should be applied consistently across MMFs, and asset eligibility should not be a function of the fund type.

Q10: Do you agree with our proposed rules changes to strengthen and broaden the existing MMFR KYC requirements for managers of all MMFs?

SSGA supports good practice around KYC requirements and we are confident that our current policies allow us to effectively manage investor concentration. We welcome the approach of the FCA which has rightly discarded the introduction of hard limits to investor concentration and requirements for further public disclosures, as both are unnecessary and could be potentially harmful in triggering redemptions.

It is positive that the sector is held to higher standards on KYC requirements and we look forward to engaging with the FCA in their upcoming guidance setting out events that could trigger coordinated behavior among investors. As it relates to the requirement to take

"appropriate action in light of investor concentration risks", we would caution that actions that require the fund to change its investor base seems unnecessary given that we monitor our investor base at all times as do third party rating agencies. Here as well we will welcome a dialogue with the FCA on their guidelines.

Q11: What do you see as the advantages and disadvantages of a commercial borrowing facility for MMF liquidity during a stress? How likely would you be to use such a facility?

We struggle to see the utility and feasibility of a commercial borrowing facility for MMFs, which even if practicable from the perspective of banks' appetite to provide such a facility, it would likely come at an elevated cost, which would be a drag to fund performance. In practice during periods of stress, when such a facility would be most beneficial, funds would be unlikely to use it given stigma effects and punitive costs.

As explained above, a facility similar to the US Federal Reserve's RRP would bring the most added value in relieving market capacity issues.

Q12: Do you have any comments on our overall policy approach to the issue of passing on the costs of liquidity to redeeming MMF investors?

SSGA believes that is important that MMFs have a broad range of Liquidity Management Tools ("LMTs") at their disposal as well as flexibility regarding the use of LMTs. The FCA approach strikes a right balance in requiring MMFs to have at least one additional anti-dilution LMT but leaving the choice of the instrument, its calibration and activation at the discretion of the fund manager.

We welcome the decision of the FCA not to pursue mandatory swing pricing or requiring the obligatory use of LMTs with certain prescriptive parameters. We note moreover that this approach is aligned with the recent AIFMD/UCITS review in the EU, which will require MMFs to select only one LMT from a harmonized list of tools.

Q13: Do you agree with our proposed rules on requirements for liquidity management procedures and tools for UK MMFs?

As per above response, we agree with the proposed rules which codify existing good practice already followed by most MMFs managers.

Q14: Do you agree with our proposed rules on the enhancing stress testing for stable NAV MMFs?

SSGA strongly agrees with the proposed approach of managing LVNAV conversion risks via a thorough stress testing process instead of changing the regulatory environment that supports the current operation of LVNAV and PDCNAVs.

At SSGA we believe that it is important for funds to provide clarity for investors and supervisors as to how an stable NAV fund will be able to operationally manage a breach of the 20bps. collar, and we have strong internal processes in place to monitor and escalate potential collar breaches to both Risk Committee and fund board.

We have in place intense monthly stress testing exercises, and whose factors we believe are broad enough to capture the additional requirements that the FCA is rightly proposing. One area of caution concerns the impact on investor redemptions of a LVNAV breaching its collar; given that this scenario has occurred only in a very few instances in the past, estimating such impacts will be difficult to carry out in a quantitative way lacking relevant datasets.

Q15: Do you agree with our proposed rules on the enhancing operational resilience for stable NAV MMFs?

We agree with the proposed rules and find them helpful in formalizing within strong governance processes best practices around operational resilience of the LVNAV structure. When it comes to publicly disclosing to MMF investors warnings on a switch to dealing at floating NAV, we would like to stress that this communications should remain proportionate, so not to inadvertently creating first mover advantage risks.

Q16: Do you have any comments on our overall policy approach to stable NAV operation in the UK MMF regime?

It is our firm conviction that the continuation of LVNAV operations is essential in order not to deprive investors of an essential cash management tool who lacks alternatives in the markets, especially given its cash equivalent accounting treatment. As said above, we strongly support the FCA conclusion that "*the removal of stable NAV operation from LVNAV MMFs would severely reduce user utility and is disproportionate to the additional risks that stable NAVs pose in comparison to the risk associated with VNAVs*."[6]

Accordingly, the FCA rightly focuses on operational resiliency and on the ability of an LVNAV fund to switch to dealing at floating NAV as a way to manage potential risks related to the LVNAV structure. This approach based on stronger stress testing requirements and higher liquidity requirements is a proportionate one to mitigate risks, increase preparedness to shocks and preserve the value utility of LVNAVs.

Q17: In your view, what are the advantages and disadvantages of investors posting and accepting MMF units as collateral for non-centrally cleared derivatives?

At SSGA we see clear advantages in allowing the use of MMFs units as collateral for meeting margin requirements in both non-cleared and cleared derivatives transactions. Margin calls were in fact a clear driver of MMF redemptions in both March 2020 the dash for cash and LDI stress event, with investors redeeming from MMFs in order to meet

[6] Source: FCA Consultation Paper 23/28, page 42.

increased collateral requirements. This dynamic drove a large part of the outflows observed in both periods, and reversed once markets stabilized.

This procyclical dynamic, where investors redeem from one form of liquidity (i.e. MMF share) just to re-invest it into another (i.e. similar money market instruments), could be avoided if investors were allowed to post and accept MMF units as collateral in both bilateral and clearing transactions. In turn, this would benefit overall financial stability by reducing redemption pressures on MMFs and improving collateral management across the system.

Q18: What specific barriers are there, if any, to posting and accepting MMF units as collateral for non-centrally cleared derivatives?

The use of MMFs as collateral in bilateral, uncleared, transactions is technically permitted under current regulation, but it is in practice restricted by the punitive haircuts which apply, given that MMFs are treated as equities, instead of "looking through" their actual underlying assets which would imply a cash-like treatment instead.

The use of MMFs as collateral in centrally cleared transactions is instead currently prohibited because CCPs are not permitted to hold MMFs in Europe under the EMIR framework.

We would like to refer here to the already mentioned IMMFA response for a more comprehensive analysis of current barriers to the transferability of MMFs shares.

We welcome the FCA's considerations around the possible use of MMFs as margin collateral, and we would encourage a continuation of this discussion beyond the current Consultation Paper, as the potential benefits in terms of reduced volatility would be significant for the financial system as a whole.

Q19: What do you see as the advantages and disadvantages of tokenisation in overcoming the operational barriers for use of MMF units as collateral?

SSGA is supportive of current industry efforts aimed at advancing the development of tokenized assets which could fundamentally change the way the asset management industry is accessed and delivered to investors.

Tokenization could help in making operationally easier the transfer of MMFs units between parties in a clear/uncleared transactions, particularly with respect to the use of MMFs shares as collateral. However the technology is still at an early stage and requires a supportive regulatory environment. In the context of usage of MMFs shares as collateral, even if deployed the technology would not solve for the regulatory barriers identified in the previous response.

Q20: How could MMF tokenisation in general interact with the proposals to increase

MMF resilience?

As discussed above, by making it easier to transfer MMFs units as collateral, tokenization could benefit MMF resiliency, provided that the regulatory barriers are adequately addressed.

Q21: Do you have any comments on the proposed drafting in MMFS? In light of the explanations given in Appendix 1, are there are any areas where you consider we may have inadvertently changed the policy?

SSGA has no further comments.

Q22: Do you have any feedback on our proposed drafting of MMFS with regard to the definition of 'commodities'?

SSGA has no further comments.

Q23: Do you agree that the Handbook should revert to original intention of EU MMFR Article 10?

SSGA has no further comments.

Q24: Do you agree that these modifications do not make a material change to MMF rules?

SSGA has no further comments.

Q25: Do you agree that MMFs depositing cash with such public bodies should be regularised with explicit text in regulation?

As discussed above, SSGA strongly suggests that it should be made possible for MMFs to deposit cash with a public facility able to absorb cash around reporting periods. This is already possible in the U.S. via the RRP facility, which allows to continuous access at an appropriate pricing level.

Q26: Do you agree that UK MMFs should be able to enter into reverse repurchase agreements that can be terminated by giving prior notice of no more than 5 days?

We do not believe that enabling MMFs to enter into reverse repo agreements that can be terminated within 5 days would have any material impact in the way funds meet the WLA requirement.

Q27: Does the Handbook drafting setting out the requirements of UK MMFR Articles 17(7)(a)-(d) represent a material change from the UK MMFR?

SSGA has no further comments.

Q28: Do you agree that these provisions are not relevant to the UK financial sector and can be deleted without affecting the operation of MMFs in the UK?

SSGA has no further comments.

Q29: Do you agree with the overall approach to stress testing, reporting and supervisory requirements? Please set out the reasons for your answer.

We have no issues with the proposed approach and note that ESMA stress testing calibrations are extremely severe and updated on an annual basis.

Q30: Do you have any comments on our cost benefit analysis?

SSGA has no further comments.