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Stress testing scenarios for money market funds: AMF complies with ESMA guidelines

The AMF has decided to comply with ESMA's guidelines on stress testing scenarios for money market funds and is updating its guidance position DOC-2018-05 accordingly. Nevertheless, the AMF stresses the need for a rapid update of these guidelines.

Following the publication of its final report in July 2019, ESMA published the official translations of its guidance on stress testing scenarios for money market funds in March 2020. In particular, the results of the stress test scenarios are to be used for management companies' disclosures to the AMF required by EU Regulation 2017/1131 ("MMF Regulation").

Updating the ESMA guidelines

These guidelines will be updated at least once a year in light of the latest market developments. In this case, the ESMA guidelines published on 3 March 2020 are based on data calibrated in 2019. The AMF therefore considers that these guidelines will have to be thoroughly reviewed to take into account recent events affecting financial markets.

Since these guidelines cannot immediately incorporate the lessons learned from these recent events, the AMF is complying with the ESMA guidelines by updating its position DOC-2018-05, but calls for a rapid update of these guidelines at the European level. In addition to an update in the calibration of parameters, the AMF believes that structural changes in the

proposed scenarios are necessary in order to better identify possible events or future changes in economic conditions that could have an adverse effect on money market funds.

Clarifications on the limits of the common parameters

The AMF draws the attention of asset management companies to these guidelines, which now contain the common parameters that must be used to produce the stress test results that must be submitted as part of the regulatory reporting requirements under Article 37 of the MMF Regulation. As stated in question 28 of the AMF's MMF educational guide and in accordance with §49 of the above-mentioned guidelines, the AMF points out that since the scenarios developed on the basis of reference parameters published by ESMA are common to all funds, they are not necessarily adapted to the portfolio of each money market fund.

Management companies must therefore ensure that they develop their own stress test scenarios, with appropriate frequency and monitoring, within the framework of Article 28 of the MMF Regulation, as well as the more general obligation to conduct market stress and liquidity tests as part of risk management, in accordance with Articles 321-81, 318-41, 318-44, 411-79 and 422-58 of the AMF General Regulation for UCITS and AIFs.

Read more

Position DOC-2018-05 - Requirements for stress test scenarios under article 28 of
↳ the european money market fund regulation

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