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M. Jean BIZET
Président de la Commission des affaires européennes du Sénat
Palais du Luxembourg
15, rue de Vaugirard
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cc. M. Gérard LARCHER
Président du Sénat
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Dear President,

The Commission would like to thank the Sénat for its Opinion on the 'Shadow-Banking System: for increased transparency and improved regulation in Europe', which refers to the Commission's Green Paper on Shadow Banking {COM(2012) 102 final} and the Commission proposal for a Regulation on money market funds {COM(2013) 615 final}.

The Commission shares the Sénat's concerns on the risks posed by the expansion of the shadow banking system to global financial stability.

Whilst the provision of financial services by non-banks can be beneficial to the EU's economy, the Commission is alert to the risks these can pose. With specific reference to the asset management sector, the Commission acknowledges that different fund types can give rise to different financial stability concerns. It is therefore important that these risks are carefully monitored and assessed. This monitoring process has intensified in recent years, and where risks have been identified, a number of measures have been adopted. The Alternative Investment Fund Managers Directive (AIFMD)[1] *for instance provides competent authorities with the power to set leverage limits on alternative investment funds' managers, who are also required to implement strict liquidity management practices including the suspension of redemptions in case of stress.*

[1] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174, 1.7.2011.

These measures are intended to protect the financial system from funds that are vulnerable to runs, or are over-leveraged.

The Commission also acknowledged that this sector is both growing in size, and its business models are evolving. As such, the Commission agrees that in-depth monitoring of it is integral to understanding and mitigating the risks posed. The Commission also agrees that the European Systemic Risk Board is the most appropriate body to carry out this monitoring, taking a macro-prudential view of these risks, and providing a unique forum for Member States to discuss, and act upon these risks.

The Commission concurs with the Sénat's view that the Financial Stability Board should, as a matter of priority, develop policy recommendations to address structural vulnerabilities within the asset management sector. In fact, the Commission is actively involved in the work undertaken by the Financial Stability Board. At the same time, one must not forget that when compared with other jurisdictions, European asset managers are already subject to a very granular level of sectorial regulation, some of which address and mitigate systemic risk in the asset management sector, for instance the UCITS Directive[2] *and the above-mentioned AIFMD.*

The Commission is mindful of the importance of bond markets: for larger firms, corporate bonds are a valuable mechanism for raising debt finance on a larger scale. Yet, despite record primary issuance, market participants have raised concerns about the limited liquidity in secondary markets. In the context of the Capital Market Union project, the Commission has started a comprehensive review of the functioning of corporate bond markets to look at ways to widen access to and deepen liquidity in light of changes observed in recent years affecting market structure, behaviour, issuance and liquidity. The Commission Services published a tender on 18 March 2016 for a study on the drivers of corporate bond market liquidity and will shortly publish a call for applications to establish an expert task force.

Money market funds have been at the core of the international work on shadow banking due to their potential for systemic implications as well as their interconnectedness to the issuers and their bank sponsors. The Commission adopted its proposal for a regulation on Money Market Funds in September 2013 {COM (2013) 615 final}, which incorporates the recommendations made by the Financial Stability Board, the International Organisation of Securities Commissions and the European Systemic Risk Board. Whilst the legislative procedures are still ongoing, the Commission is optimistic that an agreement can be reached in the near future. Concluding the Regulation on Money Market Funds is of strategic importance for the Commission.

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[2] Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions, OJ L 257, 28.8.2014.

The Commission hopes that these clarifications address the issues raised by the Sénat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

Frans Timmermans *First Vice-President*	*Valdis Dombrovskis* *Vice-President*