# Discussion of: You Can't Always Get What You Want (Where You Want It): Cross-Border Effects of the US Money Market Fund Reform by Daniel Fricke, Stefan Greppmair and Paludkiewicz

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The presented views are those of the authors and not necessarily those of the Bank of Israel.

# Cross border effects of MMFs

## Background

- In 2014, the US introduced a reform in MMFs due to their fragility
- Total prime outflows exceeded \$1.3 trillion where 90% were directed to US public debt funds.

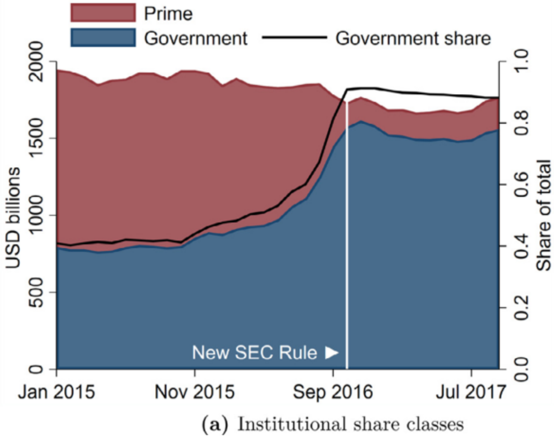


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Figure: TNA in US MMFs from Cipriani and La Spada, 2021

- \$63 billion of inflows into the European market by **foreign** investors

# Main findings

- Inflows were concentrated on euro area-based funds that focus on the USD money market
- Inflow mostly directed to CNAV funds which suggest that cross-border flows were mainly motivated by institutional investors' preference for money-like instruments rather than by introduction of gates and fees
- Inflows were indeed driven by foreign investors and not local investors $\Longrightarrow$ it was due to the US reform

# Further findings

- Flow-performance relation non-existent after the US reform in the Euro area
  - Rationalized by La Spada (2018) as the reduction in competitive pressure for euro area-MMFs should lead to a reduce performance sensitivity.

- Document less risk-taking by CNAV funds (compared to control group)

- Inflow mostly directed to CNAV funds which suggest that cross-border flows were mainly motivated by institutional investors' preference for money-like instruments rather than by introduction of gates and fees

- A discussion about fees in European MMFs

- Discussion about the implementation of the new European regulation

- Discussion about flows during Covid-19 crisis (March 2020)

## General impression

- Great paper!
- Well executed with a lot of nice data
- What follows are my own impressions and ideas after reading the paper

# Comment #1

- I would have like to see a graph comparison between flows to European MMFs (denominated in USD) and US MMFs. In fact, wouldn't it also make a more natural first hypothesis: residual outflows from US went to European funds
    - Could use the same a diff-in-diff to compare outflows from US MMFs and inflows to European MMFs
    - It Would also strengthen the argument that it had nothing to do with different monetary policy although the rest of the analysis is convincing
- In general, I would work more with foreign flows as the "action" is there. It would shorten the paper and make it less "novel-like".

# Comment #2

- Authors show that most of the inflow was to USD CNAV funds and not to VNAN funds – both having no gates and fees.

- Authors argue that **gates and fees are less important to investors than CNAV.** The logic is as follows: as VNAV has no gates and fees, and if that was more important than having a constant NAV, then we should have seen more (half/half, same?) flows to VNAV funds.

- However, wouldn't you ideally want to compare USD funds one having gates and fees and VNAV and one having CNAV with no gates and fees?

- For me, the hypothesis just shows that CNAV funds are more money like because they have 1. No gates and fees and 2. Constant NAV.

# Comment #3

- The paper needs more focus. Too many discussions of side-points. Some of the discussions don't add much in my opionion (such as the rent extraction)

Thank You!