

Money Market Funds Regulation

These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union

Asset Management Unit C4, DG FISMA

1. A few figures of interest

- Net assets:
 - US 2,7tn, EU 1,2tn, CN 970bn, JP 87bn, BR 67bn, CA 19bn*
 - CNAV funds 640 bn, VNAV funds 631 bn**
- MMF is a UCITS or an AIF investing in short-term assets
- Key use cases
 - Short-term cash management tool
 - Managing liquidity, offering diversification and stability of value of the principal; providing short-term finance
 - Acting as alternative to cash accounts
 - Objective to offer return in line with money market rate

* EFAMA International Statistics Release Q4 2018, in bn EUR

** EFAMA Factbook 2018

2. Scope and overview

- Applies to all MMFs that are established, managed or marketed in the EU:
 - UCITS or AIFs; invest in short-term assets, and
 - Offer returns as per MM rates or preserve the investment value
- Commission's proposal September 2013 aimed at:
 - Stabilising the MMF sector and making it more efficient to withstand investor runs (response to prior MMF liquidity crises)
- MMFR adopted in 2017; applies as of 21/07/2018
- Existing funds (UCITS, AIFs) grandfathered for 18 months (application to NCAs required)
- Review clause - by 21/07/2022

3. Types of MMFs and selected aspects

	VNAVs	CNAVs	LVNAVs
Max. WAM	60 days	60 days	60 days
Max. WAL	120 days	120 days	120 days
Max. Maturity	397 days	397 days	397 days
Min. Daily Liq. Assets	7.5%	10%	10%
Min. Weekly Liq. Assets	15%	30%	30%
Valuation rules	Mark-to-Market	Amortised cost	Amortised (<75 d) Mark-to-Market (>75 d) Asset-by-asset collar and portfolio fluctuation band
Rounding	4 decimal points	2 decimals (if NAV deviates 50 bp)	2 decimals (if NAV deviates 20 bp)

4. Authorisation of MMFs

- Mandatory authorisation requirements
- Submission of documentation to an NCA:
 - Fund rules, incorporation documents
 - Identification of the manager
 - Identification of the depositary
 - Other documentation
- Authorisation procedure
- ESMA public central register of all authorised MMFs
- Use of designation of MMFs (catch-all regulation)
 - a fund which follows the MMF strategy cannot operate unless it is authorised as an MMF
- Compliance with authorisation requirements at all times

5. Eligible assets

- Money market instruments
- Eligible securitisations and asset-backed commercial paper
- Deposits with credit institutions
- Financial derivative instruments (allowed for currency and interest rate hedging purposes only)
- Units or shares of other MMFs
- (Reverse) repurchase agreements under certain conditions

6. Investment prohibitions

- An MMF shall not undertake any of the following:
 - Investing in assets other than eligible assets
 - Short sale of any money market instruments, securitisations, ABCPs and units or shares of other MMFs;
 - Taking direct or indirect exposure to equity or commodities
 - Securities lending or securities borrowing agreements
 - Any encumbrance of the assets of the MMF
 - Borrowing or lending cash

7. Liquidity fees and redemption gates

- Necessary to ensure investor protection and prevent a 'first mover advantage'
 - Cost of achieving liquidity
 - Should not be a penalty charge or offset losses
- CNAVs and LVNAVs:
 - If weekly assets of CNAV or LVNAV fall below 30% of the total assets and daily redemption requests exceed 10% of the total assets of the MMF
 - Possibility to apply liquidity fees on redemptions, redemption gates (max 10%) or suspension of redemptions (max 15 days)
- Whenever the weekly maturing assets fall below 10% the Board applies at least one of the measures

8. Internal credit quality assessment

- MMFs managers will establish and implement a prudent internal credit quality assessment procedure, which will be reviewed annually by the management and the board
- Factors and principles of internal credit quality assessment
- Documentation
- Governance; periodic reviews
- Commission's delegated regulation on the credit quality assessment

9. Stress-testing

- Regular conduct of stress tests (at least bi-annually) incl. changes in liquidity, credit risks, interest rate moves, redemption requests, spreads moves, macro and systemic events
- Where vulnerabilities are revealed detailed report on stress-testing results to be submitted to the MMF Board of Directors and reviewed by the NCA (and ESMA)
- ESMA guidelines on stress testing (updated annually)

10. “Know your customer”

- Applying and implementing procedures and exercising due diligence with a view to anticipating the effect of concurrent redemptions by several investors
 - Identifiable patterns
 - Risk aversion of different investors
 - Correlation and close links between investors
- Also where investments are routed via an intermediary
- The value of the units/shares held by a single investor should not materially impact the MMF’s liquidity profile where it accounts for a substantial part of the total NAV

11. Prohibition of external support

- External support actions or measures are prohibited e.g.:
 - Cash injections
 - Purchase of assets at inflated prices
 - Purchase of units or shares to maintain liquidity
 - Providing guarantees
 - Other measures to maintain liquidity profile
- Incl. external support actions or measures by 3rd parties, such as MMFs sponsor

12. Transparency and reporting

- Daily:
 - CNAVs and LVNAVs must publish daily on the public section of their website the difference between the constant NAV per unit or share and the “true value” (market value) NAV per unit or share
- At least weekly:
 - Information on maturity breakdowns, credit profile, WAM, WAL, 10 largest holdings, total value of assets and net yield of the MMF
- Quarterly:
 - Reporting to NCAs (if AUM < EUR 100mIn reporting annually)
- Implementing Technical Standards on reporting to NCAs

Questions