

Legislative proposal

PURPOSE: to ensure uniform prudential requirements that apply to money market funds throughout the Union.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: money funds (MMF, money market funds) offer a short-term cash management tool that provides a high degree of liquidity, diversification, stability of value combined with a market-based yield.

The majority of MMFs, around 80% of the assets and 60% of the funds, operate under the rules of the [Directive 2009/65/EC](#) on Undertakings for Collective Investment in Transferable Securities (UCITS). The rest of MMFs should be operating, since July 2013, under the rules of the Alternative Investment Fund Manager (AIFM) [Directive 2011/61/EU](#).

Events that occurred during the financial crisis have shed light on several features of MMFs that make them vulnerable when there are difficulties in financial markets and therefore may spread or amplify risks through the financial system. When the prices of the assets in which the MMFs are invested start to decrease, especially during stressed market situations, the MMF cannot always maintain the promise to redeem immediately and to preserve the principal value of a unit or share issued by the MMF to investors. This situation may trigger massive and sudden redemption requests, potentially causing broader macroeconomic consequences.

In order to preserve the integrity and stability of the internal market by promoting more resilient MMFs and limiting contagion channels, it is necessary to lay down rules regarding the operation of MMFs, in particular on the composition of the portfolio of MMFs. Uniform rules across the Union are necessary to ensure smooth operation of the short term funding market for financial institutions, corporate issuers of short term debt and governments.

This proposal is in line with the Commission Green Paper (March 2012) on shadow banking. In response to the Green Paper, the European Parliament adopted a [resolution on shadow banking](#) in November 2012 where it invites the Commission to submit a proposal with particular focus on the MMF issue.

IMPACT ASSESSMENT: in order to ensure the liquidity and the stability of MMFs, a total of 16 options were analysed. The impacts including the costs and benefits on the various stakeholders, investors, asset managers, issuers of short term debt, sponsors were analysed. Such analysis concluded in favour of the creation of a more robust framework for MMFs, increased liquidity levels and more stable structure.

LEGAL BASIS: Article 114 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the proposed Regulation aims to create a regulatory framework for MMFs in view of ensuring an increased protection of investors in MMFs, as well as enhancing financial stability by preventing contagion risk. It also aims to ensure that the liquidity of the fund is adequate to face investor redemption requests and to render the structure of MMFs safe enough to withstand adverse market conditions.

The more specific objectives of this initiative: (i) to prevent the risk of contagion to the real economy, (ii) to prevent the risk of contagion to the sponsor and, (iii) to reduce the disadvantages for late redeemers, especially with respect to redemptions in stressed market conditions.

The proposal introduces uniform requirements that will deal, amongst others with the scope of eligible assets, with diversification rules, rules related to exposures to credit, interest rate and liquidity risks, as well as rules regarding the authorisation of the funds intending to engage in money market investment. These are essentially prudential product rules that aim to render the European MMFs more secure and efficient, mitigating hereto related systemic risk concerns.

The taking up of activities as fund manager is regulated either by the UCITS Directive or by the AIFM Directive. The activities of the managers will continue to be subject to AIFMD and UCITS Directive but the product rules contained under UCITS framework will be supplemented by the product rules contained in this proposed Regulation.

BUDGETARY IMPLICATION: this proposal has no implications for the EU budget.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union (TFEU).