Money market funds

2013/0306(COD) - 04/03/2015 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Neena GILL (S&D, UK) on the proposal for a regulation of the European Parliament and of the Council on Money Market Funds (MMFs).

The parliamentary committee recommended that the European Parliament adopts its position at first reading, following the ordinary legislative procedure, amending the Commission proposal as follows.

Subject matter and scope: Members stressed the necessity of adopting a uniform set of rules in order to avoid contagion of the short term funding market and of the sponsors of the MMF, which would put at risk the stability of the Union's financial market.

In order to mitigate systemic risk, the amended text provides that the Constant Net Asset Value MMFs (CNAV MMFs) should, from the date of the entry into force of this Regulation, only operate in the Union:

- as an EU "public debt CNAV MMF", namely, a CNAV MMF which invests 99.5% of its assets in public debt instruments and, by 2020, at least 80% of its assets in EU public debt instruments:
- as Retail CNAV MMFs;
- or as a "Low Volatility Net Asset Value Money Market Fund" (LVNAV MMF).

Eligible assets: the MMFs may also be invested in:

- financial instruments issued or guaranteed separately or jointly i) by the national, regional and local administrations of the Member States or their central banks; ii) or by the institutions, bodies, offices or agencies of the Unions, including among others the European Central Bank; iii) or by the European Investment Bank, the European Investment Fund, the new European Fund for Strategic Investments; iv) but also the European stability mechanism, the International Monetary Fund, the International Bank for Reconstruction and Development, the Council of Europe Development Bank and the European Bank for Reconstruction and Development;
- eligible derivative instruments used exclusively for hedging purposes;
- reverse repurchase agreements or repurchase agreements provided that certain conditions are fulfilled.

Eligible securitisations: the amended test underlines that not all categories of underlying assets have proved to be unstable, including in particular those securitisations where the underlying assets were associated with supporting the working capital of manufacturers and the sales of real economy goods and services. Those securitisations have performed well and should be considered to be eligible money market instruments to the extent that they are eligible as high quality liquid assets.

That is why it is proposed that high quality liquid asset backed securities are deemed to be eligible securitisations. The high quality liquid asset backed securities would be deemed eligible if they are liquid in line with Regulation (EU) No 575/2013, and if the underlying exposures have a high credit quality.

Specific requirements for Public Debt CNAV MMFs, Retail CNAV MMFs and LVNAV MMFs: the manager of a Public Debt CNAV MMF or a Retail CNAV MMF or LVNAV MMF should establish, implement and consistently apply a prudent, rigorous, systematic and continuous internal assessment procedure for determining the weekly liquidity thresholds applicable to the MMFs.

In order to be able to mitigate potential client redemptions in times of severe market stress, all the MMFs should have in place provisions for liquidity fees and redemption gates to prevent significant redemptions in times of market stress and to prevent other investors being unfairly exposed to prevailing market conditions.

LVNAV MMFs should only be authorised for a period of five years. The Commission should review the appropriateness of LVNAV MMFs four years after the entry into force of this Regulation.

The MMFs should not receive external support.

Transparency requirements: in order to develop a transparent and coherent credit assessment procedure, the manager should document the procedures used for the credit assessment. This should ensure that the procedure follows a clear set of rules that can be monitored and that the methodologies employed are communicated upon request to the interested stakeholders, as well as to the competent national authority.

Investors should be clearly informed, before they invest in a MMF, if the MMF is of a short-term nature or of a standard nature. In order to avoid misplaced expectations from the investor it must also be clearly stated in any marketing document that MMFs are not a guaranteed investment vehicle.

Investors in a MMF should, at least weekly, receive the following information: a) the liquidity profile of the MMF including the cumulative percentage of investments maturing overnight and within one week and how that liquidity is achieved; b) the credit profile and portfolio composition.