

# Money market funds

2013/0306(COD) - 14/06/2017 - Final act

**PURPOSE:** to ensure uniform prudential, governance and transparency requirements that apply to money market funds (MMFs) throughout the Union,

**LEGISLATIVE ACT:** Regulation (EU) 2017/1131 of the European Parliament and of the Council on money market funds.

**CONTENT:** by providing short-term financing to financial institutions, corporations and governments, money market funds (MMFs) contribute to the financing of the economy of the Union. MMFs are mainly used by corporations seeking to invest their excess cash for a short time frame.

The Regulation lays down rules for money market funds established, managed or marketed in the Union, concerning the financial instruments eligible for investment by a MMF, the portfolio of an MMF, the valuation of the assets of an MMF, and the reporting requirements in relation to an MMF.

The rules and standards aim to:

- make MMFs less vulnerable to crises and limit the risks of contagion within the short-term funding market that could risk the stability of the Union's financial market;
- increase the liquidity of MMFs, to ensure that they can face substantial and sudden redemption requests from investors, especially during stressed market situations.

Three types of MMFs: the Regulation covers three types of money market funds:

- a public debt Constant Net Asset Value (CNAV) MMFs which aims to maintain the intrinsic value of the asset at a constant value;
- variable net asset value MMFs (VNAV);
- low volatility net asset value MMFs (LVNAV).

Requirements on diversification of the portfolio: the Regulation lays down rules regarding the composition of MMF portfolios and the valuation of their assets, to ensure the stability of their structure and to guarantee that they invest in well-diversified assets of a good credit quality.

An MMF may invest no more than 5 % of its assets in money market instruments, securitisations and asset-backed commercial paper (ABCP) issued by the same body or no more than 10 % of its assets in deposits made with the same credit institutions. There is some flexibility allowed concerning the diversification requirement for deposits with the same credit institution.

The aggregate of all of an MMF's exposures to securitisations and ABCPs shall not exceed 20 % of assets.

As regards liquidity, the Regulation includes the following requirements:

- for LVNAVs and CNAVs, a minimum 10% portfolio investment in daily maturing assets and minimum 30% portfolio investment in weekly maturing assets;
- for VNAVs, a minimum 7.5% portfolio investment in daily maturing assets and minimum 15% portfolio investment in weekly maturing assets.

The Regulation prohibits external support from sponsors, notably banks.

Specific requirements for public debt CNAV MMFs and LVNAV MMFs: the manager of such funds shall establish, implement and consistently apply prudent and rigorous liquidity management procedures for ensuring compliance with the weekly liquidity thresholds applicable to such funds. In order to be able to mitigate potential investor redemptions in times of severe market stress, public debt CNAV MMFs and LVNAV MMFs should have in place provisions for liquidity fees and redemption gates to ensure investor protection.

Credit quality: the manager of an MMF shall establish, implement and consistently apply a prudent internal credit quality assessment procedure for determining the credit quality of money market instruments, securitisations and ABCPs, taking into account the issuer of the instrument and the characteristics of the instrument itself.

Transparency requirements: the common rules aim to ensure that the manager of an MMF knows the behaviour of its investors. The latter should be clearly informed before investing in a money market fund. MMFs should also make available certain other information to investors on a weekly basis, including the maturity breakdown of the portfolio, the credit profile and details of the 10 largest holdings in the MMF.

Fund managers should also supply the appropriate information to competent authorities regarding surveillance matters.

Review clause: by 21 July 2022, the Commission should undertake a review of the Regulation, including whether changes are to be made to the regime for public debt CNAV MMFs and LVNAV MMFs.

**ENTRY INTO FORCE:** 20.7.2017.

**APPLICATION:** from 21.7.2018 (with the exception of certain provisions that apply from 20.7.2017).

**DELEGATED ACTS:** the Commission may adopt delegated acts in order to supplement non-essential elements of the Directive. The power to adopt such acts is conferred on the Commission for an indeterminate period from the date of entry into force of the Regulation. The European Parliament or the Council have the right to object to a delegated act within two months (which may be extended by two months) from the date of notification of the act.

