MONEY MARKET FUNDS

Money Market Funds are considered as entities linked to the banking system in parallel so-called ***SHADOW BANKING***.

The Financial Stability Board (FSB), created in April 2009 by the G20, has defined ***SHADOW BANKING*** as a system in parallel of credit intermediation, activity traditionally reserved to banks. It involves entities and activities outside the traditional banking system. For further details on ***SHADOW BANKING*** please refer to ***Fact sheet on SHADOW BANKING.***

1. Reference text(s) and date of entry into force

- **April 2009**: Creation of the Financial Stability Board (FSB), mandated by G20 to issue recommendations to strengthen oversight and regulation of the Shadow Banking.
- **29 August 2013**: The FSB publishes 3 new reports including recommendations to address Shadow Banking risks in securities lending & repo activities.
- **4 September 2013**: The European Commission (EC) publishes a draft regulation for money market funds out of the scope of the UCITS IV Directive.

  - ✓ Reactions from the financial community concerning the establishment of a 3% buffer capital for constant net asset value funds (CNAV) as a result of this regulation on money market funds**.**

  - ✓ Reactions also on the imposition of stricter rules of diversification and investment.

  ** The last version of the Regulation includes diversification rules more stringent* ***(max. 15%/30% in assets with daily/weekly maturity and max 5% in assets issued by a same entity).***

  ** Ireland and Luxembourg have Constant NAV (CNAV) MMFs whereas France has only Variable NAV (VNAV) MMFs.*

2. Presentation

- MMF key figures:

  1. European MMFs have **assets around € 1.1 trillion** (50% C-NAV and 50% V-NAV and **65% since the last IOSCO Report).**
  2. France, Ireland and Luxembourg hold, all 3, **85% of assets of European Money Market Funds.**
  3. Money Market Funds represent **15% of investment fund assets in Europe.**

- Issues discussed :

  1. Difficulty in implementing / controlling new diversification and investment rules for bank managers and treasurers.
  2. Capital buffer cost of **€ 18 billion** to the managers in order to immobilize this reserve of liquidity causing the end of monetary funds to constant NAV.
  3. Negation concerning the conversion of their Variable NAV money market funds to constant NAV since this represents a tax attraction for customers.
  4. The last compromise of the Italian Presidency of the European Council no longer referred to this Capital Buffer but to liquidity fees / redemption gates.
  5. At the ECON Committee on 21 Jan 2015, 704 amendments have been made. Several meetings were needed to review all the amendments.

- Major points **validated** by the ECON committee :

> - **LVNAV** creation converted at term into V-NAV.
> - Prohibition for individuals to subscribe to C-NAV.
> - **Capital Buffer of 3% definitively abandoned.**
> - 2 types of CNAV: **Retail** CNAV for individuals, public authorities and not-for-profit corporations and **Public Debt** CNAV of which 99.5% of assets invested in sovereign bonds.
> - Creation of a new type of money market funds: LVNAV **(Low volatility).**

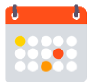
- There have been **many debates** on whether :

- Do monetary funds, and in particular those with constant net asset value, have to be regulated as banks, whereas they are subject to a very restrictive ad hoc regulatory framework?

  ** Reminder: European money market funds are subject either to UCITS V or to AIFMD. The UCITS label is a recognized brand for UCIs both within Europe and outside its borders, especially in Asia; Should we go beyond that and necessarily propose another form of regulation / directive dedicated exclusively to money market funds?*

- The money market funds are Shadow Banking entities as highlighted by the European Banking Authority in its consultation of March 19, 2015, or non-banking entities as evidenced by the general consensus emanating from players in the financial industry.

3. Chronology of events



1)	**26 February 2015:** ECON votes new rules / amendments to the draft regulation.	5)	**10 May 2016:** the Council of the EU published a new and 5th compromise with changes about the holding of ancillary liquid assets and the use of asset-backed securities/ commercial papers.
2)	**29 April 2015 :** Approval by the European Parliament of the draft regulation of the European Commission of 4 September 2013.	6)	**15 June 2016 :** The EC welcomes the agreement reached on the final text of the MMF reform (version of the 5th compromise) that same day reached the Permanent Representatives Committee of the Council (COREPER).
3)	**30 April 2015 :** Possibility for ECON to start trilogues in the event of agreement of the council about the proposal, but the Latvian Presidency of the Council of the EU and that of Luxembourg did not wish to deal with the reforms.	7)	**16 November 2016:** The trialogue process is over. A final agreement has been reached. The regulation should come into force by the end of the second quarter 2017, giving normally until beginning of 2019 to be compliant with.
4)	**5 April 2016 :** Decision of the EU Council to relaunch discussions on this reform of the MMFs by issuing a 4th compromise.	8)	**5 April 2017**: Parliament voted in first reading to adopt the final text of the regulation. **Next steps** : 1. Committee of Permanent Representatives on 10 May 2017 2. General Affairs Council on 16 May 2017 3. Signature by the end of May or the beginning of June 2017

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Links:

Reference texts: Draft proposal of the European Commission – 04.09.2013
http://ec.europa.eu/internal_market/investment/money-market-funds/index_fr.htm
Last IOSCO report – 09.2015
https://www.iosco.org/library/pubdoc