Updated as at 4 December 2017

MONEY MARKET FUNDS

Right or wrong, Money Market Funds have been considered as entities linked to the banking system in parallel so-called **SHADOW BANKING.** Shadow banking has been defined by the Financial Stability Board (FSB), created in April 2009 by the G20, "*as a system in parallel of credit intermediation, activity traditionally reserved to banks. It involves entities and activities outside the traditional banking system*".

However these money market funds are an important source of short-term financing for governments, corporates and also for banks of the euro zone.

This is mainly for this reason that the European Commission decided to reinforce the regulatory framework of these MMFs already submitted to UCITS or AIFM directives by proposing in September 2016 a regulation dedicated to these MMFs on top of those directives.

1. Presentation

- **MMFs key figures**

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

- **Main topics of the Regulation:**

- **Capital buffer of 3%** definitively removed.
- External support is prohibited.
- 2 types of CNAV**: Public Debt CNAV** (invest 99.5% in government securities) and the **low volatility** NAV MMF **- LVNAV MMF** (invest in high quality of assets with a low volatility).
- Wide range of asset eligibility (including securitization and asset-backed commercial papers) with stricter diversification rules and investment limits.
- New liquidity ratios.
- More transparency in terms of information and reports for both investors and regulators, set up of stress tests scenarios, internal credit assessment for counterparty risk management and new tools to deal with "know your customer" rules in the sense of knowing their likely redemption requirements, rather than AML.

- **Issues discussed**

1. Capital buffer of 3% has been abandoned and would have cost **€ 18 billion** to asset managers. It has been replaced by liquidity fees/redemption gates largely inspired form the US MMF Reform.
2. Shall we keep CNAV funds knowing that they have been accused of misleading investors who thought that they had same guarantee offered by a time deposit?
3. Since September 2013, a large number of amendments have been made and lots of meetings have been necessary to review all these amendments and find some compromises.
4. Luxembourg and Ireland have CNAV MMFs while only VNAV MMFs are allowed in France.
5. Do MMFs and in particular **CNAV MMFs** need to be regulated like banks while they already comply with other regulations and operate under a solid legal framework?
6. European MMFs comply with either **UCITS** Directive or **AIFM** Directive. UCITS label is a brand well recognized in Europe and outside Europe, especially in Asia for instance. Did it make sense to propose this new Reform exclusively dedicated to MMFs only?
7. MMFs are *shadow banking entities* as highlighted by the European Banking Authority in its consultation as of March 19, 2015, or non-banking entities as evidenced by the general consensus emanating from players of the financial industry. Therefore they are risky financial products that had to be better regulated.

- **Next actions**

1. The Regulation will enter into force 20 days after its publication and will apply to new MMFs 12 months after that date (20 July 2018). Existing MMFS will have 18 months to comply (20 January 2019).
2. Non European MMFs sold to European investors will also have to comply with this new MMF Reform.
3. ESMA published a consultation paper focusing on risk management and stress tests scenarios. Replies were expected by 7th August 2017. Implementing technical standards and remaining delegated acts will be adopted by the Commission in the first half of 2018.
4. ESMA published its final report on MMFs rules on 17 November 2017. It mainly concerns liquidity management and quality of counterparty, set up a standard format of reporting and stress test scenarios carried out by asset managers.

2. Chronology of events

1)	4 September 2013: Publication by the EC of a project to regulate all MMFs in addition to UCITS IV and AIFM directives.	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).
2)	**29 April 2015:** Approval by the European Parliament of the draft regulation of the European Commission of 4 September 2013.	7)	**16 November 2016:** The Trialogue process is over. A final agreement has been reached.
3)	**30 April 2015:** Possibility for ECON to start Trialogues 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.	8)	**5 April 2017**: Parliament voted in first reading to adopt the final text of the regulation.
4)	**5 April 2016:** Decision of the EU Council to re-launch discussions on this reform of the MMFs by issuing a 4th compromise.	9)	**16 May 2017**: Council adopted the MMF regulation followed by the text signature.
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.	10)	**30 June 2017**: Publication in the Official Journal of the EU with an entry into force on 20 July 2017.

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

Reference texts: Money market funds regulation published in the OJ of the EU on **30 June 2017**.
Links: http://eur-lex.europa.eu/legal-content/FR-EN/TXT/?uri=CELEX:32017R1131&from=EN

July 2014: The SEC published new rules on MMFs whose Europe largely inspired.

September 2015: Last IOSCO report.

https://www.iosco.org/library/pubdoc

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