

## 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% replaced by liquidity fees/redemption gates largely inspired from 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. Luxembourg and Ireland have CNAV MMFs while only VNAV MMFs are allowed in France.
4. 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?
5. 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?
6. 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 and must be better regulated.
7. **A new concern came in 2021** regarding the MMF Reform implemented in 2019. Is this mechanism of liquidity fees and redemption gates efficient to deal with liquidity risk in case of financial market turbulence? First it has never been tested because even during the Covid crisis in March 2021, MMFs did not suffer any loss or negative effect. Looking at European statistics provided by EFAMA during this period, there were no Runs (those massive redemption orders) for MMFs. To the contrary, they saw some new subscription even though we are still leaving in a low or negative interest rate situation.



- **Steps in 2018**

1. The Regulation will enter into force 20 days after its publication and will apply to new MMFs 12 months after that date (**21 July 2018**). Existing MMFS will have 18 months to comply (21 Jan 2019).
2. Non EU 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 7<sup>th</sup> 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 roadmap on MMFs rules on 15 January 2018 leaving the financial industry until 12 February 2018 to provide any comment. One new item remains the use of Securitization in line with criteria laid down in December 2017 for a simple transparent standardised securitisation. The EC informs ESMA on 19 January 2018 that share cancellation is not compatible with the Regulation.
5. New guidelines published in March 2018 by ESMA regarding stress tests scenarios under Art. 28.
6. 15 May 2018- Publication of a reporting template for managers of MMFs. It sets the standards for the reporting of the general characteristics to identify both the MMF and its manager. The report shall include information on the assets and liabilities of the MMF, specific portfolio indicators and stress test.
7. 11 September 2018- ESMA published replies received to consultation from ESMA on stress tests scenarios. Deadline is 1 December 2018.

- **Steps in 2019, 2020 and 2021**

1. On 19 July 2019, ESMA issued two sets of guidelines regarding the stress testing and reporting to NCAs (Art. 37 MMFR). The Guidelines on reporting (updated at least once a year) provide guidance on how to fill in the reporting template on money market funds. MMFs Managers must transmit to national competent authorities this new Reporting as of Q1 2020. **Reporting date as of Q1 & Q2 was postponed until September 2020.**
2. On 22 June 2020, ESMA published the translations of the guidelines on the reporting to national competent authorities under **Art. 37** of the Money Market Fund Regulation [link](#). Both the CSSF in September 2020 and the AMF in January 2021 have confirmed using LST (Liquidity stress testing) ESMA guidelines.
3. On 8 Feb 2021, there was a meeting at EFAMA to assess a possible new reform of MMFR following suggestions of US Treasury and Bank of England in 2020. ESMA launched a new CP regarding this possible and new Reform of MMFs. ESMA will consider replies received until 30 June 2021. In addition, two CP were launched: **one from FSB** on policy proposals to enhance Money Market Fund resilience and **one from EBA** on criteria for the identification of shadow banking entities.

4.



## 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)	<b>15 June 2016:</b> 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)	<b>29 April 2015:</b> Approval by the European Parliament of the draft regulation of the European Commission of 4 September 2013.	7)	<b>16 November 2016:</b> The Trilogue process is over. A final agreement has been reached.
3)	<b>30 April 2015:</b> 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.	8)	<b>5 April 2017:</b> Parliament voted in first reading to adopt the final text of the regulation.
4)	<b>5 April 2016:</b> Decision of the EU Council to re-launch discussions on this reform of the MMFs by issuing a 4 <sup>th</sup> compromise.	9)	<b>16 May 2017:</b> Council adopted the MMF regulation followed by the text signature.
5)	<b>10 May 2016:</b> 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)	<b>30 June 2017:</b> Publication in the Official Journal of the EU with an entry into force on 20 July 2017.  <b>20 January .2019 Implementation of the EU MMF Reform</b>

## 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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