

Money market funds

2013/0306(COD) - 05/04/2017 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 514 votes to 179, with 9 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council on Money Market Funds.

Parliament's position adopted in first reading following the ordinary legislative procedure amended the Commission proposal as follows:

Subject matter and scope: the objective of this Regulation is to ensure uniform prudential, governance and transparency requirements that apply to money market funds (MMFs) throughout the Union.

Money market funds provide short-term finance to financial institutions, corporations and governments. By providing finance to those entities, MMFs contribute to the financing of the economy of the Union. Those entities use their investments in MMFs as an efficient way to **spread their credit risk** and exposure, rather than relying solely on bank deposits.

It is necessary to lay down rules regarding the operation of MMFs, in particular on the composition of the portfolio of MMFs. Those rules are intended to:

- **make MMFs more resilient and limit contagion channels** of the short-term funding market which would put at risk the stability of the Union's financial market;
- ensure that MMFs are able to **face substantial and sudden redemption requests** by a large group of investors during stressed market situations.

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

- Variable net asset value MMF ("VNAV MMF");
- Public Debt Constant net asset value MMF ("Public Debt CNAV MMF" or "CNAV MMF"), which invest at least 99.5% of their assets in public debt instruments or cash;
- Low Volatility Net asset value MMF ("LVNAV MMF").

Eligible assets: money market funds may invest in:

- **money market instruments** including financial instruments issued or guaranteed separately or jointly by the Union, the national, regional and local administrations of the Member States or their central banks, the European Central Bank, the European Investment Bank, the European Investment Fund, the European Stability Mechanism, the European Financial Stability Facility;
- **eligible securitisations** and asset-backed commercial paper (ABCPs) provided they meet certain requirements. Given that certain securitisations were particularly volatile during the financial crisis, the proposed Regulations would impose certain quality criteria on securitisations and ABCPs to ensure that only securitisations and successful ABCPs are eligible;
- **reverse repurchase agreements and repurchase agreements** that meet certain conditions;
- **units or shares of other MMFs**, subject to certain conditions.

Diversification: an MMF shall invest no more than **5%** of its assets in money market instruments, securitisations and ABCPs issued by the same body or **10 %** of its assets in deposits made with the same credit institution. Some flexibility in the diversification requirement for deposits with the same credit institution should be allowed.

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

Credit quality: an MMF should have a prudent internal credit quality assessment procedure for determining the credit quality of the money market instruments, securitisations and ABCPs in which it intends to invest. MMFs should be able to use ratings as a complement to their own assessment of the quality of eligible assets.

Specific requirements for Public Debt CNAV MMFs and LVNAV MMFs: the managers of such funds should establish, implement and consistently apply **prudent and rigorous, liquidity management procedures** for ensuring compliance with the weekly liquidity thresholds applicable to those MMFs.

In order to be able to mitigate potential client redemptions in times of severe market stress, those MMFs should have in place provisions for liquidity fees and redemption gates to ensure investor protection.

These funds should also be allowed to make limited use of the amortised cost method of valuing assets.

A MMF shall not receive external support by a third party.

Transparency requirements: investors should be **clearly informed** whether the MMF is of a short-term nature or of a standard nature and whether the MMF is a public debt CNAV MMF, a LVNAV MMF or a VNAV MMF. 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.

Supervision: competent authorities should be given all the supervisory and investigatory powers, including the ability to impose certain penalties and measures, necessary for the exercise of their functions with respect to this Regulation.

Review: by five years after the date of entry into force of this Regulation, the Commission shall review and examine whether changes are to be made to the regime for public debt CNAV MMFs and LVNAV MMFs.