2013/0306(COD) - 29/04/2015 Text adopted by Parliament, partial vote at 1st reading/single reading

The European Parliament adopted amendments on the proposal for a regulation of the European Parliament and of the Council on Money Market Funds (MMFs).

The matter was referred for review to the competent Committee. The vote was postponed to a later meeting.

Subject matter and scope: money market funds (MMF) provide short-term finance to financial institutions, corporates or governments and thus contribute to the financing of the European economy. For such entities, using their investments in MMFs is an efficient way to spread their credit risk and exposure, rather than relying solely on bank deposits.

In the absence of a regulation laying down MMF rules, Parliament stressed the necessity of adopting a uniform set of rules in order to avoid contagion of the short term funding market and of the sponsors of the MMF, which would put at risk the stability of the Union's financial market.

In order to mitigate systemic risk, the amended text provides that the Constant Net Asset Value MMFs (CNAV MMFs) should, from the date of the entry into force of this Regulation, only operate in the Union:

- as an EU "public debt CNAV MMF", namely, a CNAV MMF which invests 99.5% of its assets in public debt instruments and, by 2020, at least 80% of its assets in EU public debt instruments;
- as Retail CNAV MMFs for small investors, that is, a CNAV MMF that is available for subscription only to charities, non-profit organisations, public authorities and public foundations;
- or as a "Low Volatility Net Asset Value Money Market Fund" (LVNAV MMF).

Eligible securitisations: the amended test underlines that not all categories of underlying assets have proved to be unstable, including in particular those securitisations where the underlying assets were associated with supporting the working capital of manufacturers and the sales of real economy goods and services.

That is why it is proposed that high quality liquid asset backed securities are deemed to be eligible securitisations. The high quality liquid asset backed securities would be deemed eligible if they are liquid in line with Regulation (EU) No 575/2013, and if the underlying exposures have a high credit quality. Within six months following publication of this regulation, the Commission shall, adopt delegated acts concerning the specification of the criteria for identifying simple, transparent and standardised securitisation.

Specific requirements for Public Debt CNAV MMFs, Retail CNAV MMFs and LVNAV MMFs: the managers of such funds should establish, implement and consistently apply a prudent, rigorous, systematic and continuous internal assessment procedure for determining the weekly liquidity thresholds applicable to the MMFs.

In order to be able to mitigate potential client redemptions in times of severe market stress, all the MMFs should have in place provisions for liquidity fees and redemption gates to prevent significant redemptions in times of market stress and to prevent other investors being unfairly exposed to prevailing market conditions:

- Public Debt CNAV MMFs and Retail CNAV MMFs for small investors should cease to be CNAV MMFs where they cannot meet the minimum amount of weekly liquidity requirements within 30 days of having used the liquidity fees or redemption gates.
- LVNAV MMFs should only be authorised for a period of five years. The Commission should review the appropriateness of LVNAV MMFs four years after the entry into force of this Regulation.

The MMFs should not receive external support on the part of any third party, including the sponsor of the MMF, that is intended for, or would result in, guaranteeing the liquidity of the MMF or stabilising the NAV per unit or share of the MMF.

Transparency requirements: in order to develop a transparent and coherent credit assessment procedure, the manager should document the procedures used for the credit assessment. This should ensure that the procedure follows a clear set of rules that can be monitored and that the methodologies employed are communicated upon request to the interested stakeholders, as well as to the competent national authority.

Investors should be clearly informed, before they invest in a MMF, if the MMF is of a short-term nature or of a standard nature. In order to avoid misplaced expectations from the investor it must also be clearly stated in any marketing document that MMFs are not a guaranteed investment vehicle.

Investors in a MMF should, at least weekly, receive the following information: a) the liquidity profile of the MMF including the cumulative percentage of investments maturing overnight and within one week and how that liquidity is achieved; b) the credit profile and portfolio composition.

Supervision by the competent authorities: the competent authorities shall supervise compliance with this Regulation on an on-going basis. Authorisation of a MMF shall be withdrawn in the event of a breach of the ban on sponsor support.