



Making money market funds more resilient to financial crises

Plenary sessions [29-04-2015 - 15:00]

Money market funds (MMFs) are an important source of short-term financing for financial institutions, corporates and governments, but they need to be more resilient to crises, said the MEPs on Wednesday. They approved a draft law already adopted by the Economic and Monetary Affairs Committee members in February, that would make MMFs safer, provide for more transparency, investor information and investor protection.

MMFs provide highly liquid short-term financing to investors seeking to diversify their portfolios, for business start-ups and small and medium-sized enterprises (SMEs). However, they need to become more resilient to crises, as the last one showed that they may be unstable and vulnerable to runs and contagion, if most of their investors withdraw their funds at the same time in response to market turbulence.

New categories of MMFs proposed by the ECON MEPs

There are two kinds of MMFs, those that offer a constant net asset value (CNAV) per unit or share e.g. at \$1, €1 or £1, when they distribute income to investors and those that offer a variable net asset value (VNAV).

Under the draft law, ECON committee MEPs proposed to limit CNAV MMFs to two types:

- Retail CNAV that would be available for subscription only for charities, non-profit organisations, public authorities and public foundations
- Public Debt CNAV which would invest 99,5% of its assets in public debt instruments

There would be a new type of MMF:

- Low Volatility Net Asset Value MMF (LVNAV MMF) that might display a constant net asset value but under strict conditions. Authorisations granted to LVNAVs would lapse after five years however in undertaking its review, the Commission could examine the possibility of allowing authorisations for LVNAVs to continue beyond the 5 year period.

Check-up systems and transparency

The draft law should also require MMFs to diversify their asset portfolios, investing in higher-quality assets, follow strict liquidity and concentration requirements and have in place sound stress testing processes, MEPs decided. MMFs would have to have in place a rigorous internal assessment procedure to determine the credit quality of money market instruments.

The assets of a MMF would have to be valued at least once a day and the result should be published daily on the website of the MMF.

As the discretionary nature of external support contributes to uncertainty in times of instability, MEPs decided that a MMF should not receive external support from a third

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party including from its sponsor, if any.

Under the draft law, MEPs also tightened the transparency rules. MMFs would have to report weekly all of the following information to their investors:

- The liquidity profile
- The credit profile and portfolio composition
- Weighted average maturity (WAM) of the portfolio
- Weighted average life (WAL) of the portfolio
- Concentration of the top five investors in the MMF

Liquidity Fees and Redemption Gates

MEPs decided that Public Debt and Retail CNAVs and LVNAVs should apply "liquidity fees" "redemption gates" in circumstances to help stem sudden outflows.

Next steps

The vote consolidated the Parliament's position for three-way talks on the draft with EU member states and the European Commission.

Additional informations

- EPRS on money market funds: [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_ATA\(2015\)554181](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_ATA(2015)554181)
- Steps of the procedure: [http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2013/0306\(COD\)&l=en](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2013/0306(COD)&l=en)
- Neena Gill (S&D, UK): <http://www.europarl.europa.eu/meps/en/4533.html>

Political groups

- Press release by S&D Group: <http://www.socialistsanddemocrats.eu/newsroom/sds-secure-deal-prevent-future-money-market-bailouts>

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