European Parliament

Press release

Money Market Funds: breakthrough agreement between MEPs and Slovak Presidency

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An agreement on the EU money market funds regulation has been struck by the European Parliament, Council and Commission, after lengthy negotiations, more than three years after the Commission published the original proposal.

Rapporteur Neena Gill (S&D, UK) said:

“This is one of the most contentious and complex pieces of legislation that has been held up for more than three years. I am delighted we have an overall agreement between Parliament and the Council. I believe this is a win-win deal for both major European MMF sectors, variable and constant net asset value MMFs (VNAVs and CNAVs) respectively.”

“Moreover the key objectives of preventing the future systemic risks and runs on the funds have been addressed. I am particularly pleased we found a viable operational model for low volatility net asset value (LVNAV) MMFs, which was introduced at the European Parliament’s imitative”, she added.

“This agreement is an important step forward in MMF regulation, as the EU has been lagging behind on its international commitments to regulating the sector. The USA implemented its own reform in October this year”, she concluded.

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, MEPs wanted to make them more resilient to crises, and make them more stable and less vulnerable in case of “runs”, if most of their investors withdraw their funds at the same time in response to market turbulence.

LVNAV: a new type of MMF proposed by the MEPs

The Parliament proposed a new category of MMF: Low Volatility Net Asset Value MMF (LVNAV MMF) with an objective that it has to work for the real economy.

Main LVNAV features:

- A strict portfolio fluctuation band: the constant NAV cannot deviate by more than 20 basis points from the actual NAV - this is far stricter than the 50 basis points used by CNAVs
- Diversified portfolio with stringent concentration requirements to reduce risk, assets described more precisely and subject to strict conditions
- Limit the use of the amortised accounting method for the valuation of assets
- Strict daily and weekly liquidity requirements to fulfil potential redemption requests
- A stringent regime of fees and gates in case of shortfalls in liquidity, to address the question of ‘run risk’ and first mover advantage

- Increase transparency to ensure investors and supervisors get better & earlier information.

Check-up systems and transparency

The draft law should also require MMFs to diversify their asset portfolios, investing in higher-quality assets, follow liquidity and concentration requirements and have in place sound stress testing processes conducted at least bi-annually.

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.

The EP proposal that that a MMF should not receive external support from a third party including from its sponsor was also sustained in the agreement, together with a requirement that MMFs should report on the ten largest holdings in the MMF.

Next steps

Some technical work on the text is now under way by the services of the three institutions. Afterwards, the agreement reached by the EP negotiating team will have to be approved by a plenary vote.

Further information

- Profile of the rapporteur: Neena Gill (S&D, UK)

  : http://www.europarl.europa.eu/meps/en/4533/NEENA_GILL_home.html
- Procedure file: http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2013/0306(COD)&l=en

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