European Parliament

Money Market Funds

Money Market Funds are collective funds that invest in short-term debt and provide financing for financial institutions, corporations and governments. During the financial crisis, their liquidity and stability were challenged, prompting a legislative proposal to make them more resilient. After long negotiations, the co-legislators reached an agreement in November 2016, now submitted to plenary.

Background

A Money Market Fund (MMF) is a mutual fund that purchases short-term assets such as money market instruments issued by banks, governments or corporations. The crisis highlighted possible problems with instantaneous redemption and value preservation, when the prices of assets in which MMFs are invested begin to decline. This could potentially lead to a run on the funds, as investors withdraw from MMFs.

European Commission proposal

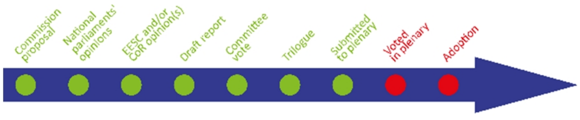
In 2013, the Commission adopted a proposal to improve the stability of MMFs: (i) introducing mandatory conditions on portfolio structure; (ii) establishing a capital buffer (3 % of assets) for 'constant net asset value' (CNAV) MMFs, to help ensure stable redemption prices; (iii) clear labelling of MMFs, differentiating between short-term and standard types; (iv) customer profiling to help predict substantial redemptions; and (v) internal credit risk assessment by MMF managers to prevent excessive dependence on external ratings.

European Parliament position

The Parliament voted its amendments on the proposal on 29 April 2015, with a view to MMFs (i) having liquidity fees and redemption gates in place to help prevent sudden outflows; (ii) diversifying asset portfolios, respecting strict liquidity and concentration standards, ensuring sound stress-testing processes, and increasing their reporting and transparency towards investors; (iii) valuing their assets and publishing their value on their website daily; (iv) reporting weekly on the liquidity profile, the credit profile and portfolio composition, weighted average maturity (WAM) of the portfolio, weighted average life (WAL) of the portfolio, and concentration of the top five investors in the MMF, to their investors. The Parliament also proposed that the obligation for CNAV MMFs to hold a 3 % capital buffer be removed, and for CNAV MMFs to be limited to retail CNAV MMFs (available for selected investors, e.g. charities, public authorities), public debt CNAVs (investing 99.5 % of their assets in public debt instruments and, by 2020, 80 % in EU public debt) and low volatility NAVs (LVNAV MMFs). Lastly, financial derivative instruments (fulfilling certain conditions) and high-quality asset backed securities (e.g. car loans) were added to the instruments eligible for investment by MMFs.

After several trilogues, the co-legislators reached a political agreement in November 2016. The text sets prudent liquidity requirements for LVNAV MMFs and Public Debt CNAV MMFs (a minimum 10 % portfolio investment in daily maturing assets and minimum 30 % portfolio investment in weekly maturing assets as well as liquidity fees and redemption gates) and for VNAF MMFs. It also provides for diversification requirements (limits on the amount invested in money market instruments, eligible securitisations, asset backed commercial paper and deposits with credit institutions). It clarifies and broadens the assets in which MMFs can invest; sets transparency provisions; and requires the Commission to report after five years on the functioning of the regulation and on the feasibility of setting an 80 % EU public debt quota for public debt CNAV MMFs. The plenary vote on the agreed text is due to take place during the April I 2017 session.

First reading: 2013/0306(COD); Committee responsible: Economic and Monetary Affairs (ECON); Rapporteur: Neena Gill (S&D, United Kingdom). See the EPRS 'EU Legislation in Progress briefing', Money Markets Funds.



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