



# Making money market funds more resilient to financial crises

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**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 Economic and Monetary Affairs Committee (ECON) on Thursday. It approved a draft law 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

## **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 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:

# Press release

- 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 CNAV and LVNAV should apply "liquidity fees" "redemption gates" in circumstances to help stem sudden outflows.

## Next steps

The text adopted by the ECON MEPs will be put to vote by the full House to consolidate the Parliament's position before the negotiations with the member states. The vote is planned for April.

## Useful links

- Watch webstreaming live: <http://www.europarl.europa.eu/wps-europarl-internet/frd/live/live-program?language=en>
- Catch up via Video On Demand (VOD)  
: <http://www.europarl.europa.eu/ep-live/en/committees/search?end-date=&start-date=&legislature=&organ-code=&pageIndex=>
- Committee on Economic and Monetary Affairs:  
<http://www.europarl.europa.eu/committees/en/econ/home.html>

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