

# Dealing with a New Money Market Fund Landscape

EuroFinance Copenhagen – 16 October 2019

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**Institutional Money Market Funds Association**

# Agenda

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- What is IMMFA, its mission and membership
- Implications of European Money Market Fund Reform
- Considerations for regulators
- Looking forward

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# WHAT IS IMMFA?

# IMMFA Full Members

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# IMMFA Associate Members

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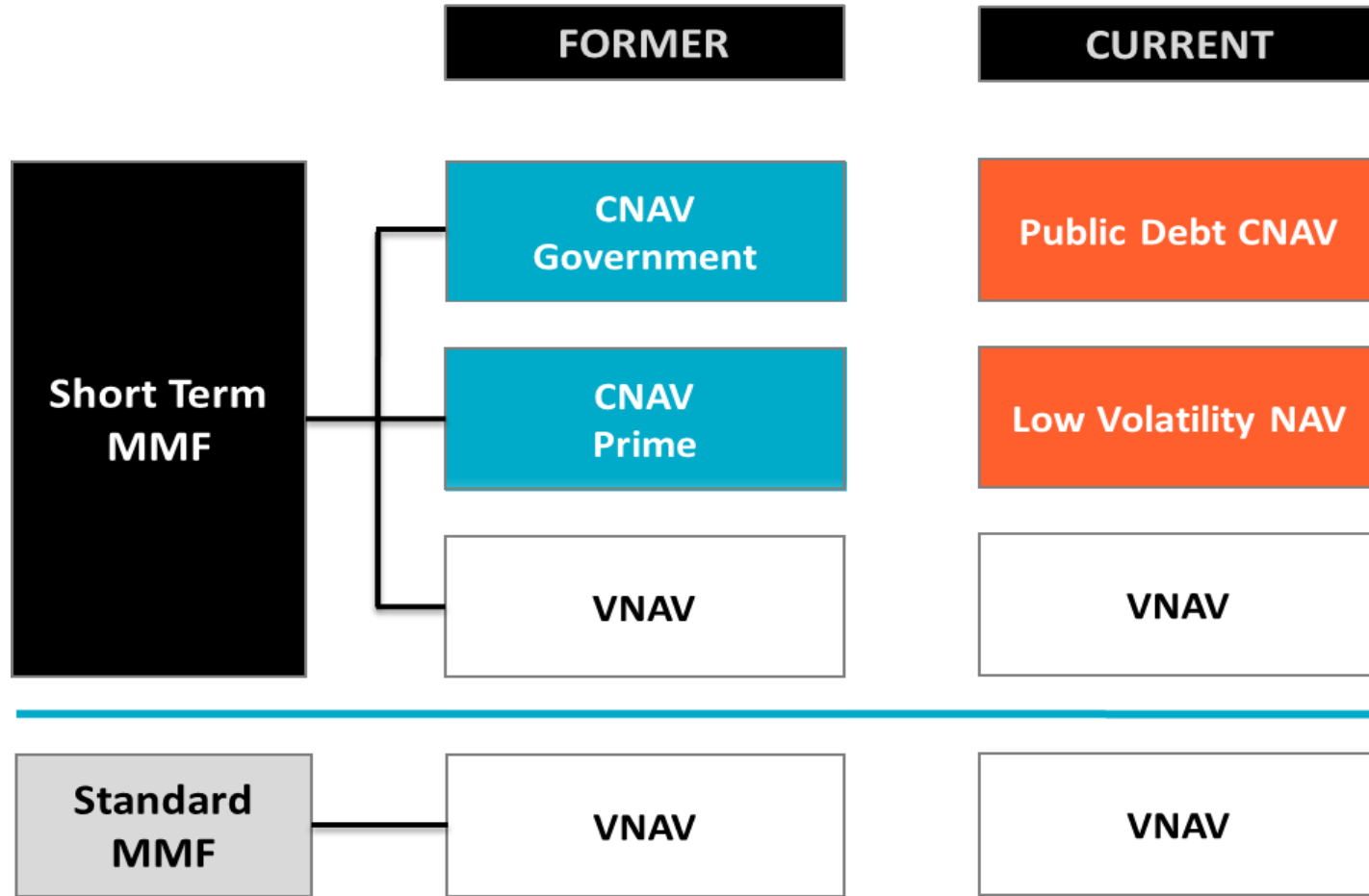
# IMMFA's Mission

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- The Institutional Money Market Funds Association (IMMFA) is the only trade association in Europe dedicated to Money Market Funds
- Our core objective is to promote and support development and integrity of the money market fund industry
  - Informing and influencing policy makers regarding money market fund issues
  - Educating investors about money market funds
  - Providing timely data on members' funds

# European MMF Product Range: Old to New

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# European Constant NAV Fund Conversions



Source: IMMFA



# Additional Protections from MMFR

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- Limitation in the difference allowable between the mark-to-market NAV and trading NAV of LVNAV and PDCNAV funds
- Minimum daily and weekly liquidity requirements
- Information disclosure requirements
  - Net % AUM inflows and outflows
  - Portfolio & investor composition detail

# Considerations for Regulators

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**BREXIT**

**Benchmark Reform**

**Technology**

**ESG / SRI / Sustainability**

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# LOOKING FORWARD

“Life can only be understood backwards:  
but it must be lived forwards”

- Soren Kierkegaard

# IMMFA Priorities

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- Anticipate and prepare for regulatory developments
- Position ourselves with the new Commission
- Build new/enhance existing relationships at an EU and individual country level
- Develop closer collaboration with other relevant trade associations
  
- In addition to delivering the mission
  - Informing and influencing policy makers regarding money market fund issues
  - Educating investors about money market funds
  - Providing timely data on members' funds

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**QUESTIONS?**

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# APPENDIX

# European MMF Regulation: summary product rules

| New fund categories          | Public Debt CNAV MMF  | Low Volatility NAV MMF (LVNAV)  | Variable NAV MMF (VNAV)  | Standard (VNAV) MMF  |
|------------------------------|---|---|--|--|
| Fund type                    |   |   |  | Standard MMF   |
| Eligible investments         | 99.5% of portfolio to be invested in public debt securities, reverse repo secured with government securities, and cash<br><br>Currency unrestricted   | Money market instruments, securitisations and ABCP, deposits, derivatives, repo, reverse repo, other MMF  | Money market instruments, securitisations and ABCP, deposits, derivatives, repo, reverse repo, MMF | Money market instruments, securitisations and ABCP, deposits, derivatives, repo, reverse repo, MMF |
| WAM / WAL                    | 60 days / 120 days  | 60 days / 120 days  | 60 days / 120 days   | 180 days / 365 days  |
| Minimum liquidity            | 30% weekly, includes 10% daily  | 30% weekly, includes 10% daily  | 15% weekly, includes 7.5% daily  | 15% weekly, includes 7.5% daily  |
| Mandatory fees and gates     | Apply when weekly liquidity falls below 10%   | Apply when weekly liquidity falls below 10%   | No   | No   |
| Discretionary fees and gates | Existing UCITS provisions on fund suspensions apply<br><br>MMFR extra provisions apply on convergence of 2 events:<br>weekly liquidity drops below 30% and daily net redemptions exceed 10% | Existing UCITS provisions on fund suspensions apply<br><br>MMFR extra provisions apply on convergence of 2 events:<br>weekly liquidity drops below 30% and daily net redemptions exceed 10% | Existing UCITS provisions on fund suspensions apply  | Existing UCITS provisions on fund suspensions apply  |
| Liquid asset restrictions    | Minimum 12.5% cash, reverse repo, deposits<br>Maximum 17.5% govt. securities to 190 days<br>Other MMF not permitted   | Minimum 12.5% cash, reverse repo, deposits<br>Maximum 17.5% govt. securities to 190 days<br>Other MMF not permitted   | Minimum 7.5% cash, reverse repo, deposits<br>Maximum 7.5% other MMF                                | Minimum 7.5% cash, reverse repo, deposits<br>Maximum 7.5% other MMF                                |
| Valuation method             | Amortised cost accounting for all securities  | Amortised cost accounting for securities up to 75 days. Securities over 75 days at market/model.<br>Securities more than 10bp away from market to be valued at market or model.             | At market or model   | At market or model   |
| NAV - rounding               | Fund collar – 50bp rounding (either side)   | Fund collar – 20bp rounding (either side)   | N/A  | N/A  |
| Fund valuation               | To 2 decimal places - €/£/\$1.00  | To 2 decimal places - €/£/\$1.00  | To 4 decimal places - €/£/\$1.0000   | To 4 decimal places - €/£/\$1.0000   |
| Shadow NAV calculation       | Required: daily “shadow” NAV to be calculated on a per asset M2M basis.   | Required: daily “shadow” NAV to be calculated on a per asset M2M basis.   | N/A  | N/A  |
| Review clause                | Regulation reviewed 5 years post implementation<br><br>Review to assess use of alternative product structure and feasibility of establishing 80% EU public debt quota                       | Regulation reviewed 5 years post implementation<br><br>Review to assess regime for LVNAV product  | Regulation reviewed 5 years post implementation  | Regulation reviewed 5 years post implementation  |



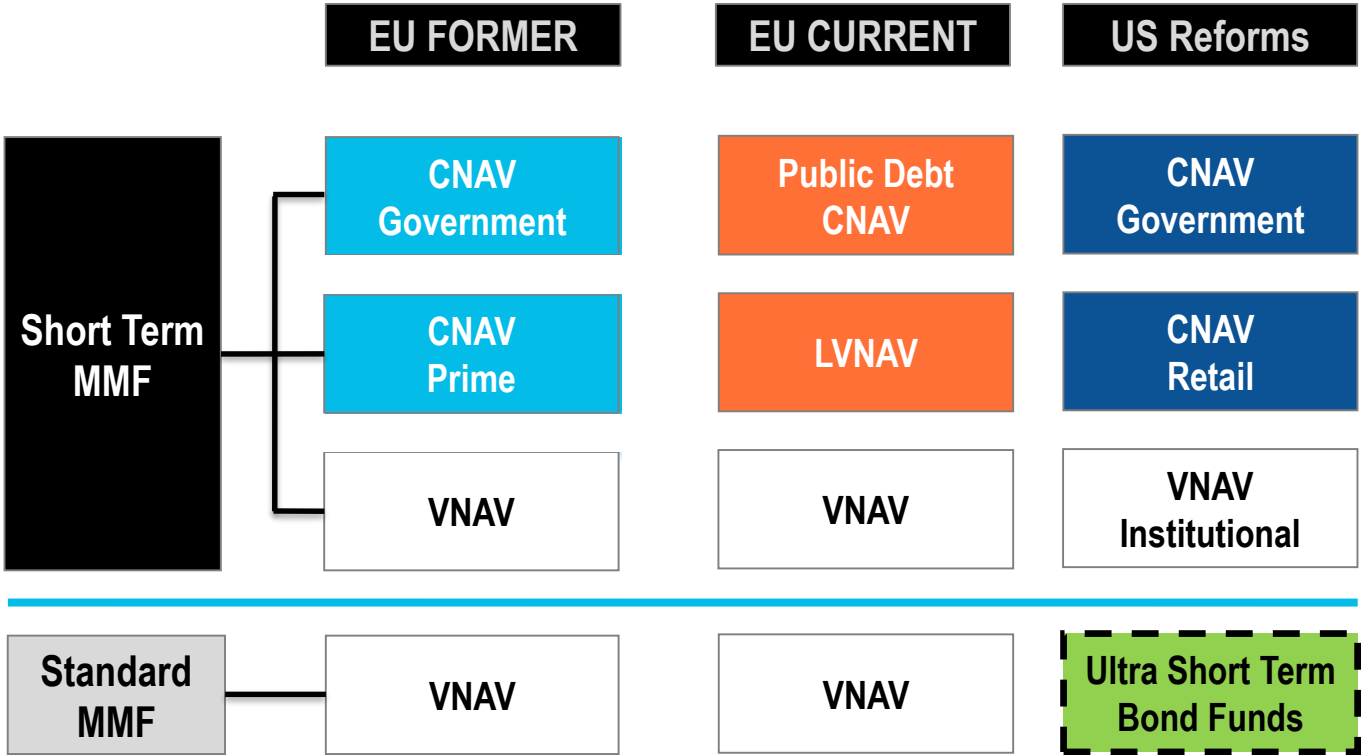
# Comparing old and new: LVNAV MMF

|                               | OLD - CNAV MMF (Prime)  | NEW - LOW VOLATILITY NAV MMF ("LVNAV")  |
|-------------------------------|---|---|
| <b>Fund type</b>              | Short Term MMF (ESMA guidelines)  | Short Term MMF [Art.3]  |
| <b>Eligible investments</b>   | High quality short term money market instruments (principally bank debt)<br>IMMFA Code requires credit quality assessment | Money market instruments, securitisations and ABCP, deposits, derivatives, repo and reverse repo<br>Subject to credit quality assessment [Arts.9-16]  |
| <b>WAM and WAL</b>            | 60 days / 120 days<br>397 days maximum residual maturity  | 60 days / 120 days [Art.24(1)]<br>397 days maximum residual maturity  |
| <b>Minimum liquidity</b>      | Specified by rating agencies  | 10% daily / 30% weekly [Art.24(1)(c) and (e)]   |
| <b>Liquid assets</b>          |   | Minimum 12.5% cash, reverse repo and deposits<br>Maximum 17.5% government securities to 190 days [Art.24(1)(g)]   |
| <b>Valuation method</b>       | Amortised cost accounting for all securities  | Amortised cost accounting for securities up to 75 days. Securities with longer maturity to be marked-to-market [Art.29(7)]  |
| <b>Valuation - rounding</b>   | Fund collar - 50 basis points rounding (either side)  | Fund collar - 20 basis points rounding (either side) [Art.33(2)(b)]   |
| <b>Pricing</b>                | To 2 decimal places - £0.01   | To 2 decimal places - £0.01 [Art.32(2)]   |
| <b>Shadow NAV calculation</b> | Yes - on a regular basis (not less than weekly)   | Yes - "shadow" NAV to be calculated daily<br>Any asset that diverges in value from the CNAV by more than 10 basis points must be valued at mark-to-market until back within 10bp asset collar [Art.29(7)] |
| <b>Fees and gates</b>         | Yes - discretionary   | Yes - mandatory when weekly liquidity below 10; otherwise discretionary (as now) [Art.34(1)(b)]   |
| <b>Review clause</b>          | ESMA guidelines reviewed as needed  | Product to be reviewed 5 years after implementation [Art.46]  |

# Comparing old and new: Public Debt CNAV MMF

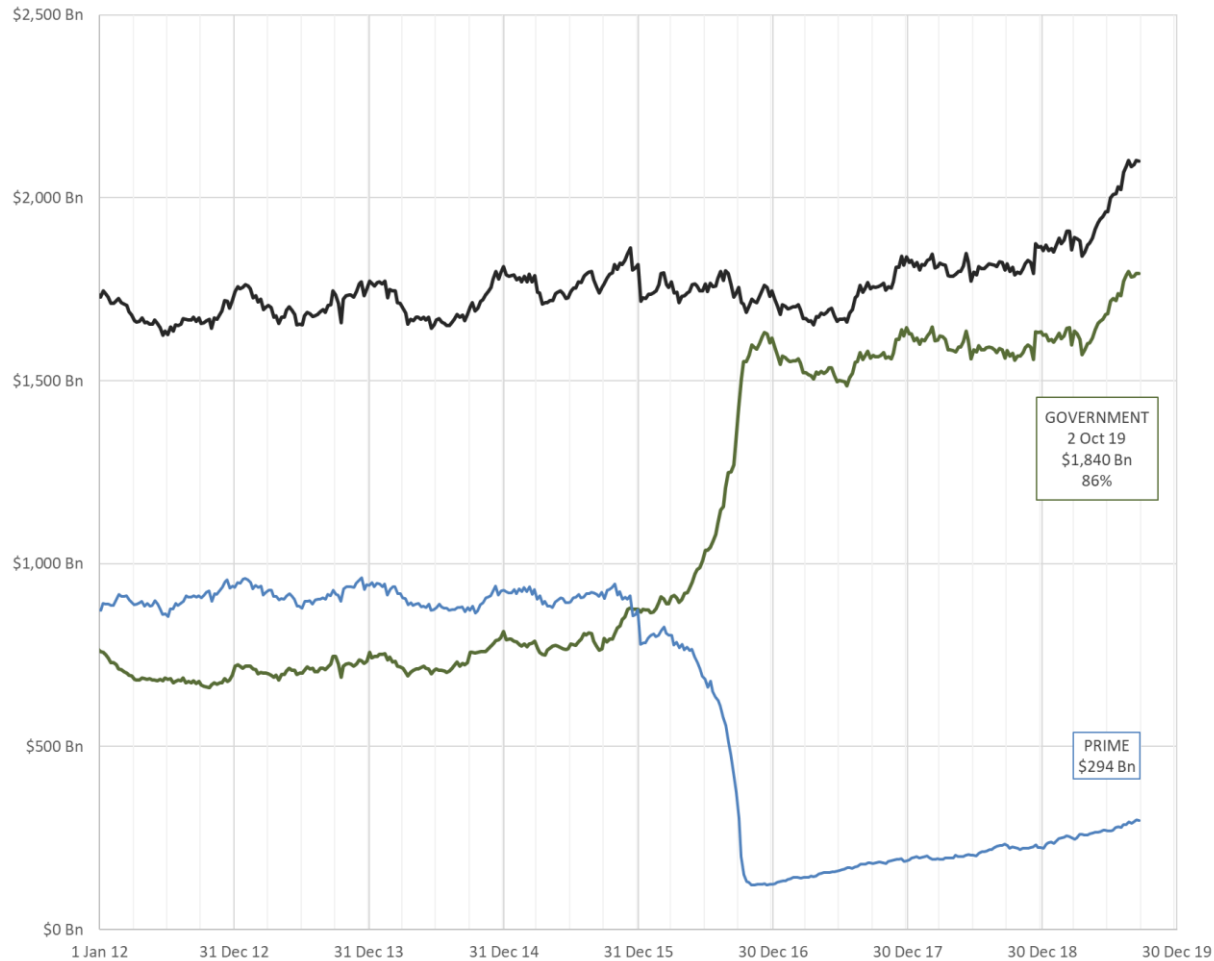
|                               | OLD - CNAV GOVERNMENT MMF   | NEW - PUBLIC DEBT CNAV MF  |
|-------------------------------|---|--|
| <b>Fund type</b>              | Short Term MMF (ESMA guidelines)  | Short Term MMF   |
| <b>Eligible investments</b>   | Portfolio must invest in highest quality short term money market instruments or deposits (cash) | 99.5% of portfolio must invest in money market instruments issued or guaranteed by governments and specified institutions, reverse repo and cash |
| <b>WAM and WAL</b>            | 60 days / 120 days<br>397 days maximum residual maturity  | 60 days / 120 days<br>397 days maximum residual maturity   |
| <b>Minimum liquidity</b>      | Specified by rating agencies  | 10% daily / 30% weekly   |
| <b>Liquid assets</b>          |   | Minimum 12.5% cash, reverse repo and deposits<br>Maximum 17.5% government securities to 190 days   |
| <b>Valuation method</b>       | Amortised cost accounting for all securities  | Amortised cost accounting for all securities   |
| <b>Valuation - rounding</b>   | Fund collar - 50 basis points rounding (either side)  | Fund collar - 50 basis points rounding (either side)   |
| <b>Pricing</b>                | To 2 decimal places - £0.01   | To 2 decimal places - £0.01  |
| <b>Shadow NAV calculation</b> | Yes - on a regular basis (not less than weekly)   | Yes - "shadow" NAV to be calculated daily  |
| <b>Fees and gates</b>         | Yes - discretionary   | Yes - mandatory when weekly liquidity falls below 10%; otherwise discretionary (as now)  |
| <b>Review clause</b>          | ESMA guidelines reviewed as needed  | Product to be reviewed 5 years after implementation  |

# Comparison with US MMF product range



**Note:** In US, VNAV Institutional MMF must incorporate trigger-based fees and gates; in EU trigger-based mandatory fees and gates apply only to EU Public Debt CNAV and LVNAV MMFs

# US Institutional MMFs – the impact of VNAV



Source: ICI