

## CODE OF PRACTICE

### Mission statement

IMMFA represents promoters of, and providers of services to, triple-A rated<sup>1</sup> constant and accumulating net asset value (NAV) money market funds<sup>2</sup>, domiciled in Europe.

IMMFA's objective in issuing this Code is to ensure that Members offer a consistently high quality product and service to investors, by promoting best practice in the management and operation of triple-A rated money market funds. The requirements of this Code are additional to any legal or regulatory requirements applicable to an IMMFA fund in the jurisdiction in which it is domiciled, which shall always take precedence.

### Code Part I: Purpose

1. The reason for having this Code is to support investor confidence in triple-A rated constant and accumulating NAV money market funds. The Code sets standards of best practice for Members in the management and operation of triple-A rated money market funds. The standards are written with the following aims in mind:
  - (a) to make clear the basis on which Members are admitted to IMMFA;
  - (b) to set best practice standards to be applied in the management and operation of triple-A rated money market funds;
  - (c) to require of Members a consistent approach to valuing funds, so as to support the reliability, transparency and comparability of the product;
  - (d) to make explicit certain principles on which Members' funds should be managed and operated, particularly with regard to the risks inherent in a money market fund; and
  - (e) to ensure the regular publication of standardised data about Members' funds so as to facilitate understanding of the product by interested parties.
2. Members should inform relevant parties, including the fund's board of directors (or, for contractually based vehicles, the board of directors of the manager), trustees, administrators<sup>3</sup>, credit rating agencies, third party data providers and

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<sup>1</sup> In this context, triple-A rated means AAAm from Standard & Poor's, Aaa/MR1+ from Moody's Investors Service or AAA/V1+ from Fitch Ratings as amended from time to time. Other rating agencies may use other insignia.

<sup>2</sup> Money market funds are defined in Article 16.

<sup>3</sup> In this context administrator refers to the person or persons who act, variously, as general administrators, transfer agents and/or authorised corporate directors for each fund.

other organisations that might be affected by this Code or the provisions of this Code and any responsibilities arising from it.

### **Code Part II: Entry criteria for Full Members**

3. Full Members are those Members that are promoters of money market funds.
4. Full Members should comply with the criteria set out in this Code in order to gain (as applicants), and continue with, membership of IMMFA.
5. Full Members must be the promoters of at least one triple-A rated constant or accumulating NAV money market fund domiciled in Europe.
6. Full Members must publish data on at least one triple-A rated constant or accumulating NAV fund domiciled in Europe, in the standardised format agreed by IMMFA.
7. Full Members must agree to be bound by this Code.
8. Full Members must agree to be subject to IMMFA's procedures for breach of this Code.
9. Full Members should exercise care to ensure that funds that are not compliant with the Code are not promoted as IMMFA funds.

### **Code Part III: Entry criteria for Associate Members**

10. Associate Members are those Members that provide services to money market funds, but are not themselves promoters of money market funds.
11. Associate Members should comply with the criteria in this Code (to the extent that it is relevant to them) in order to gain (as applicants), and continue with, membership of IMMFA.
12. Associate Members must, at all times, have a demonstrable connection<sup>4</sup> with the business of manufacturing, managing, servicing or distributing money market funds, at least one of which must be a triple-A rated constant or accumulating NAV fund domiciled in Europe. Investing in a money market fund will not of itself be sufficient to show a 'demonstrable connection'.
13. Associate Members must agree to be bound by this Code (to the extent that it is relevant to them). Associate Members should conduct their work in respect of relevant money market funds in a way that lends support to IMMFA's general objectives and also supports the provisions of this Code as they apply to Full Members.
14. Associate Members must agree to be subject to IMMFA's procedures for breach of this Code.

### **Code Part IV: General obligations**

15. Members must maintain a triple-A rating for all funds subject to the provisions contained herein.

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<sup>4</sup> The IMMFA Board is responsible for determining whether an applicant has a 'demonstrable connection' with the industry and is thus eligible to be a Member.

16. In this Code the term money market fund refers to funds, UCITS registered or equivalent (as determined by the IMMFA Technical Committee), that comprise diversified pools of high-grade short-dated money market securities actively managed to offer safety of principal and liquidity. Specifically such funds should not invest in equities or in securities with equity-like characteristics or be managed to behave like equities. The term IMMFA fund refers to money market funds subject to the provisions contained herein.
17. Members agree that the main objectives in managing and operating their IMMFA funds are to preserve principal and to maintain liquidity in the funds. An important, but lesser, consideration is to enhance yield to investors. With these objectives in mind, and acknowledging their responsibility to the market in general, Members agree to manage and operate, or arrange for the management and operation of, their IMMFA funds in accordance with the general and specific conditions set out below.
18. Members should ensure that the administrator selected for each IMMFA fund is experienced in handling the administration of triple-A rated constant or accumulating NAV money market funds (as appropriate). Members should review the administrative services arranged for their IMMFA funds, whether provided directly or outsourced, and should be proactive in ensuring that the administrative services received are of high quality throughout the life of a fund. If a Member arranges for an IMMFA fund to use an administrator that is not experienced in handling triple-A rated constant or accumulating NAV money market funds, that Member should ensure that the services to be provided are thoroughly scrutinised to ensure that these are of high quality throughout the life of an IMMFA fund.
19. Members should ensure they have in place the necessary resources to manage and operate IMMFA funds.
20. Members should not undertake any action that, directly or indirectly, compromises the security of an IMMFA fund's investment holdings.
21. Under normal market conditions, Members providing constant NAV IMMFA funds should offer share/unit redemption facilities on each business day on which the relevant markets for each relevant fund are open for business.
22. Members should ensure that securities held in an IMMFA fund are either in the base currency of the fund or should be fully hedged back to the base currency of the fund so far as reasonably practicable.
23. Members should ensure that IMMFA funds invest in other collective investment schemes only where that other scheme is also subject to the requirements contained herein or is subject to equivalent standards as determined by the IMMFA Technical Committee. In the absence of any determination to the contrary by the IMMFA Technical Committee, funds that are subject to Rule 2a-7 of the US Investment Company Act of 1940 should be construed as equivalent.
24. Members agree to ensure that their IMMFA funds are managed and operated so that they comply with best practice guidance published from time to time by the IMMFA Technical Committee. The IMMFA Board is responsible for approving the terms of reference of the IMMFA Technical Committee and ensuring that this forum operates in accordance with them. The remit of the IMMFA Technical Committee is to provide a forum for industry experts to agree detailed provisions

relating to the management of IMMFA funds that will, following consultation, either provide guidance to or be binding on Members; in both cases without requiring further changes to the Code.

#### **Code Part V: Pricing of IMMFA funds and securities**

25. For purposes of valuing the securities in an IMMFA fund, Members should ensure that their IMMFA funds use the straightline method of amortising assets held in the fund. Where the relevant authorities in the fund's domicile do not recognise this valuation methodology, then the IMMFA fund must nonetheless put in place arrangements to ensure that data published by the fund reflects the amortised value of the fund's underlying assets.
26. For purposes of ensuring that the IMMFA fund's stated asset value remains close to its realisable value, Members should ensure that their IMMFA funds are also valued on a mark-to-market basis at regular intervals. In this context, 'regular intervals' means not less than once a week during normal market conditions.
27. Members should ensure that they have in place, and adhere to, an escalation procedure for occasions when the value of the IMMFA fund under the straight-line method and under the mark-to-market method differs by more than a marginal amount. The escalation procedure should ensure that any variance in valuation is considered by people competent to act for the fund (usually the directors of the fund or its management company and its trustees) at an appropriate time. As a guide, the 'appropriate time' could be when the variance in valuation reaches 10bp, 20bp and 30bp. A recommended escalation policy would have the fund administrator notifying the investment manager at 10bp, senior management of the investment manager at 20bp and the trustee and board of directors at 30bp. The purpose of the escalation procedure is to ensure that an IMMFA fund's objective to preserve principal, and the investment strategy devised to deliver on this objective, are reviewed by individuals independent of the fund's investment management team at times when the portfolio is under stress.
28. Members should ensure that they have in place, and adhere to, an escalation procedure for occasions when the value of a security in an IMMFA fund under the amortised cost valuation method compared with the relevant mark-to-market valuation differs by more than a marginal amount. The escalation procedure should ensure that any variance in valuation is considered by people competent to act for the fund at an appropriate time. As a guide, the 'appropriate time' could be when the variance in valuation reaches 30bp and again when it reaches 50bp. At 30bp, it would be expected that the administrator would inform the investment manager of the variation. The investment manager would assess the cause of the movement and, if necessary, liaise with the administrator to ensure price validity. At 50bp, the administrator should notify the investment manager, the directors and the trustee, and the investment manager should recommend appropriate action to the directors. Once other checks have been exhausted, appropriate action might include selling the security. The security level escalation procedure should not be reviewed in isolation. If the variance in valuation is sufficient to significantly impact the portfolio, the fund level escalation procedure should determine appropriate action.
29. Members should ensure that their IMMFA funds have a formal policy to address any realised gains and losses. This policy must be approved by the fund's board of directors and should be reviewed no less than annually. The policy should

ensure that any realised capital gain or loss arising in an IMMFA fund is dealt with on a consistent basis and in a timely manner that is considered by the board of directors to be in the best interests of all shareholders in the fund. If it is proposed that a realised gain or loss is smoothed and/or offset over a period of more than one year, the IMMFA fund's board of directors must approve that action even if such powers have otherwise been delegated to the investment manager.

30. Members should take steps to require that the pricing sources used by the administrators of their IMMFA funds properly reflect the fair disposal value of the securities in a fund.
31. In the event that a Member experiences a permanent loss of value in an IMMFA fund<sup>5</sup> or anticipates such an event, the Member should inform the IMMFA Secretariat as soon as reasonably practicable.

#### **Code Part VI: Liquidity**

32. Members should ensure that their IMMFA funds have a formal liquidity management policy to allow the funds to meet reasonably foreseeable liquidity demand, having regard to normal market liquidity. The liquidity management policy should be approved by the fund's board of directors and should be reviewed no less than annually.
33. Notwithstanding the generality of Article 32, Members should ensure that in particular their IMMFA funds should maintain no less than five percent of net assets in securities which mature the following business day and no less than twenty percent of net assets in securities which mature within five business days.
34. In the event of liquidity levels falling below the minima in Article 33 above, Members should ensure that the investment managers of their IMMFA funds make best efforts to ensure the fund can comply with the minima as soon as reasonably practicable thereafter, having regard to market conditions and the best interests of all shareholders in the fund.
35. Members should ensure that their IMMFA fund's liquidity policy addresses concentration risk, including any concentrations arising within shareholders or sector-specific issuance.
36. The weighted average maturity (WAM) of securities held in an IMMFA fund should not exceed 60 days, except when specific agreement has been reached otherwise with one or more of the rating agencies.
37. Members should ensure that the IMMFA fund prospectus and constitutive documents permit an *in specie* transfer of assets of the fund to satisfy all or part of a material redemption request. Any proposal to use such a power must be both approved by the IMMFA fund's board of directors and in the best interests of all of the other shareholders in the fund.

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<sup>5</sup> In this context a 'permanent loss of value' means, for a constant NAV money market fund, when a fund has a published share price or verified mark-to-market valuation amounting to 99.5% or less of the constant value of each share. An accumulating money market fund is deemed to have suffered a 'permanent loss of value' if either its published share price or its verified mark-to-market valuation per share falls below 99.5% of the highest level previously reached by the share price.

## **Code Part VII: Credit**

38. Subject to specific guidance issued by the IMMFA Technical Committee, Members should ensure that each security held by an IMMFA fund presents an appropriate level of credit risk for the period during which it is held by the fund. Members should take a proactive approach to managing risk in order to achieve this objective.
39. Members can refer new security types to the IMMFA Technical Committee to agree their eligibility for IMMFA funds. Should the IMMFA Technical Committee determine that such security types do not represent a risk profile which is in general in accordance with the objectives of an IMMFA fund:
- (a) the analysis by the IMMFA Technical Committee and the minutes of the meeting must be distributed to all Members;
  - (b) provided that they can offer additional analysis and/or data about such security types, Members can appeal any decision. Following review of this additional information, the IMMFA Technical Committee will reconsider its position and circulate information as in (a); and
  - (c) should the IMMFA Technical Committee not consider a security eligible for inclusion in an IMMFA fund and Members decide to maintain their investment or make any new investment in spite of the specific guidance from the IMMFA Technical Committee on this security type:
    - i. approval should be obtained from the fund's board of directors to invest in this security type; and
    - ii. the information that the fund invests or may invest in such a security type should be disclosed to the fund's shareholders.
40. The weighted average final maturity (WAFM) of securities held in an IMMFA fund should not exceed 120 days. The final legal maturity of a security should be used to calculate the WAFM of a fund, unless the security includes a put option where the right to exercise the put option is retained by the fund. In only these instances, the maturity date of the security should be considered to be the date of the option.
41. The final legal maturity of securities held in an IMMFA funds should not exceed 397 days, except where the security is issued by a Government or has an explicit Government guarantee. The final legal maturity for Government and Government-guaranteed securities should not exceed two years.

## **Code Part VIII: Disclosure**

42. Members should disclose in a freely available manner the liquidity profile of their IMMFA funds on a monthly basis, following the expiry of a reasonable period after the final business day of the month. The disclosure of the liquidity profile of the fund should specify the cumulative percentage of securities which mature within the following periods:
- (a) the following business day;
  - (b) one day to one week;

- (c) one week to one month;
  - (d) one month to three months;
  - (e) three months to six months;
  - (f) six months to one year; and
  - (g) over one year.
43. The percentage of the IMMFA fund held by the top ten shareholders should be supplied to shareholders on request.
44. IMMFA funds may derogate from Articles 42 and 43 for six months following the date of their commencement of trading.
45. Members must publish statistical data, including that required by Article 42, the WAM and WAFM of at least one IMMFA fund domiciled in Europe, in the weekly IMMFA Money Fund Report.
46. The data on the IMMFA fund must be presented in the standardised format agreed by IMMFA.
47. Members should exercise care to ensure that data provided by them about their IMMFA funds is accurate.
48. Queries made of Members in the course of checking and confirming data should be dealt with promptly and in full.

#### **Code Part IX: Breaches of the Code**

49. Members should comply with this Code.
50. Members should include within their IMMFA fund's prospectus a clause to the effect that for so long as the Member is a member of IMMFA, all best efforts will be made to comply with Articles 22, 23, 25, 26, 29, 32, 33, 35, 36, 40 and 41 of this Code.
51. A Member will prima facie be in breach of the Code if any IMMFA fund ceases to be triple-A rated, or if any IMMFA fund is put on credit watch by a rating agency.
52. The IMMFA Secretariat is responsible for investigating (or declining to investigate) alleged breaches of the Code. It may investigate in a way of its choosing, but subject to ensuring that any conflict of interest that may arise is dealt with in the course of the investigation.
53. Upon recommendation of the IMMFA Secretariat, the IMMFA Board shall decide what action to take. Such action may include, amongst other things, that the Member should be suspended or expelled from membership, that the Member should correct the breach within a specified time period or that no action should be taken. The IMMFA Board may, at its discretion, publish its decision to the membership or more widely.

## **Code Part X: Transitional provisions**

54. Members should ensure that funds that exist on 14 December 2009 comply with the provisions of Articles 23, 29, 32 - 37, 39 - 45 and 50 within one year of that date.

IMMFA Code of Practice

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