

# IMMFA

INSTITUTIONAL MONEY MARKET FUNDS ASSOCIATION

## CODE OF PRACTICE

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The Institutional Money Market Funds Association (IMMFA) a trade association which represents European-domiciled money market funds.

IMMFA Members are bound by a Code of Practice whose objective is to protect investors by imposing high and consistent standards on IMMFA funds.

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## **PART I**

### **Objective of the Code**

- 1.1 The objective of the Code is to protect investors in IMMFA funds by establishing:
  - (a) minimum standards for risk management (including in relation to credit risk, interest rate risk, liquidity risk and market risk);
  - (b) general management obligations;
  - (c) disclosure obligations; and
  - (d) obligations for Compliance with the Code.
- 1.2 Full Members are bound by the Code and should comply with it and take such steps as are necessary to ensure each of their IMMFA funds complies with it. Associate Members are bound by the Code and should comply with it to the extent relevant to them and so as to support the provisions of the Code as they apply to Full Members and IMMFA funds.
- 1.3 Members must ensure that funds not compliant with the Code are not promoted as IMMFA funds.
- 1.4 Members should inform relevant parties of the Code's provisions and the responsibilities arising from it, these parties to include: their IMMFA fund's board of directors; trustees; administrators; credit rating agencies; third party data providers; and other organisations that might be affected by the Code.
- 1.5 The provisions of the Code are additional to any legal or regulatory requirements applicable to an IMMFA fund in the jurisdiction in which it is domiciled, including particularly the ESMA guidelines for Short Term Money Market Funds (ESMA/2014/1103). In the case of conflict between such legal or regulatory requirements and the Code, the former take precedence.
- 1.6 The Board of IMMFA maintains and issues to Members a supplement to the Code comprising statements of clarification, guidance and other materials it deems to be relevant. The IMMFA Board may consult IMMFA committees on the content of statements of clarification and guidance.

## **PART II**

### **Credit and interest rate risk**

- 2.1 The credit risk assessment facilities operated by the investment managers of an IMMFA fund must be proportionate to the nature, scale and complexity of its business. Investment managers must be competent to manage and transact in all debt obligations the fund is exposed to, whether directly or as collateral under reverse repurchase transactions.
- 2.2 Each security held by an IMMFA fund must present 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.
- 2.3 At the point of purchase, any security to be held in an IMMFA fund must be the subject of a current approval under the credit risk policy of the fund.
- 2.4 An IMMFA fund may utilise reverse repurchase agreements provided the counterparty is the subject of a current approval under the credit risk policy of the fund. An IMMFA fund may additionally transact with other reverse repurchase agreement counterparties, provided that the collateral consists only of High Quality Government Securities. If the fund transacts a repurchase agreement with collateral that does not consist solely of High Quality Government Securities, the transaction is to be treated as direct exposure to the counterparty and such counterparty must be the subject of a current approval under the credit risk policy of the fund. A suitable "haircut" should be imposed on all repurchase agreements and consideration should be given to the liquidity characteristics of the collateral and the legal framework that may or may not impact the timeliness of the fund's ability to take possession of the collateral.
- 2.5 The portfolio of holdings of an IMMFA fund should not have a WAL that exceeds 120 days. The final legal maturity of a security should be used to calculate the WAL of a fund, unless the security includes a put option where the right to exercise the put option is retained by

- the fund. In these instances only, the maturity date of the security should be considered to be the earliest possible settlement date of the option.
- 2.6 The portfolio of holdings of an IMMFA fund should not have a WAM which exceeds 60 days.
  - 2.7 An IMMFA fund should not hold a security with a final legal maturity which exceeds 397 days.
  - 2.8 Immediately after the acquisition of any security, an IMMFA fund should not:
    - (a) have more than five per cent of net assets invested with a single “family”, excluding any asset-backed commercial paper issued by an entity within the family. However, this limit may be increased to ten per cent of net assets for a period of five business days after any acquisition of a security issued by a family entity and up to 100% of a fund may be invested in High Quality Government Securities. Where asset-backed commercial paper is purchased, Members should consider any sponsor or liquidity support provided to the issuing conduit and the impact this would have on the other exposures of the IMMFA fund;
    - (b) have more than five per cent of net assets invested with a single repurchase agreement counterparty, unless the relevant collateral consists only of High Quality Government Securities. If the collateral in a repurchase agreement is not solely High Quality Government Securities, then the exposure to that repurchase agreement is deemed to be direct to that counterparty and subject to the limitations in (a) and (c) of this Article 2.8; and
    - (c) have more than five per cent of net assets in illiquid securities. Members should determine which securities are considered illiquid, but this should include any deposit or repurchase agreement with a residual maturity of more than five business days.
  - 2.9 If an IMMFA fund fails to meet the minimum credit criteria required by the Code, the relevant Member must ensure that the fund’s investment managers use best efforts to ensure the fund complies with the minimum as soon as reasonably practicable thereafter, having regard to market conditions and the best interests of all shareholders in the fund.
  - 2.10 A Member can refer new security types to the Investment Committee to agree their eligibility for an IMMFA fund. Should the Investment 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 Investment Committee and the minutes of the meeting will be distributed to all Members;
    - (b) if it can offer additional analysis and/or data about such security types, a Member can appeal any decision. Following review of this additional information, the Investment Committee will reconsider its position and circulate information as in (a); and
    - (c) should the Investment Committee not consider a security eligible for inclusion in an IMMFA fund and the relevant Member decides to maintain the fund’s investment or make any new investment in spite of the specific guidance from the Investment 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.

## **PART III**

### **Liquidity risk**

- 3.1 An IMMFA fund must have a formal liquidity management policy to allow it 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.
- 3.2 Notwithstanding the generality of Article 3.1, an IMMFA fund must maintain no less than ten per cent of net assets in investments which mature the following business day and no less than twenty per cent of net assets in investments which mature within five business days. For these purposes, Members may include in the maturing asset totals High Quality

- Government Securities and transactions in repurchase transactions which meet the requirements of Articles 2.4 and 2.8 and which mature within the relevant period.
- 3.3 If liquidity levels of an IMMFA fund fall below the minima in Article 3.2, the relevant Member must require the investment managers of the fund to use best efforts to ensure the fund complies with the minima as soon as reasonably practicable thereafter, having regard to market conditions and the best interests of all shareholders in the fund.
  - 3.4 An IMMFA fund's liquidity policy must address concentration risk, including any concentrations arising within shareholders or sector-specific issuance.
  - 3.5 An IMMFA fund's prospectus and constitutive documents must 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 be in the best interests of all shareholders in the fund.

## **PART IV**

### **Market risk**

- 4.1 An IMMFA fund must use the straight-line method of amortising its assets when valuing them. If the relevant authorities in the fund's domicile do not recognise this valuation methodology, the data published by the fund must nevertheless reflect the amortised value of the fund's underlying assets.
- 4.2 To ensure its stated asset value remains close to its realisable value, an IMMFA fund must also be 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.
- 4.3 An IMMFA fund must have an escalation procedure for occasions when the value of the fund under the straight-line method and under the mark-to-market method differs by more than a marginal amount. The escalation procedure must ensure that any variance in valuation is considered by individuals independent of the fund's investment management team who are competent to act for the fund (usually the directors of the fund or its management company and its trustees) at an appropriate time.
- 4.4 An IMMFA fund must have an escalation procedure for occasions when the value of a security in the 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 must ensure that any variance in valuation is considered by individuals independent of the fund's investment management team who are competent to act for the fund at an appropriate time. 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.
- 4.5 An IMMFA fund must have a formal policy to address any realised gains and losses. This policy must be approved by its board of directors and should be reviewed no less than annually. The policy must require any realised capital gain or loss arising in the fund to be 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 fund's board of directors must approve that action even if such powers have otherwise been delegated to the investment manager.
- 4.6 Members must require the administrators of their IMMFA funds to use pricing sources which properly reflect the fair disposal value of the securities in the relevant fund.
- 4.7 If an IMMFA fund experiences a permanent loss of value or such an event is anticipated, the relevant Member must inform the IMMFA Secretariat as soon as reasonably practicable.

## **PART V**

### **Disclosure**

- 5.1 An IMMFA fund should disclose to investors, if requested, at least monthly, as at the last business day of the month, and within five business days of the month end, the following items:
  - a) the liquidity profile of the fund, comprising the cumulative percentage of investments which mature within the following periods:
    - (i) the following business day;
    - (ii) one day to one week;
    - (iii) one week to one month;
    - (iv) one month to three months;
    - (v) three months to six months;
    - (vi) six months to one year; and
    - (vii) over one year.
  - b) portfolio holdings;
  - c) credit profile, as represented by the short-term ratings of the fund's portfolio;
  - d) portfolio composition, as represented by the types of investments in the fund's portfolio;
  - e) WAM;
  - f) WAL.
- 5.2 An IMMFA fund may derogate from Article 5.1 for six months following the date of its commencement of trading.
- 5.3 An IMMFA fund should provide such information as is required to produce the weekly IMMFA Money Fund Report.
- 5.4 Members should exercise care to ensure that data provided by them about their IMMFA funds is accurate.
- 5.5 Queries made of Members in the course of checking and confirming data should be dealt with promptly and in full.

## **PART VI**

### **General obligations**

- 6.1 The primary objective of an IMMFA fund should be to provide investors with security of capital and high levels of liquidity. An important, but secondary, objective should be to enhance yield. Given these objectives, 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.
- 6.2 An IMMFA fund must not invest in equities or in securities with equity-like characteristics or be managed to behave like equities.
- 6.3 Members should ensure that the administrator of each of their IMMFA funds is experienced in handling the administration of 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 the administrator of an IMMFA fund is not experienced in handling constant or accumulating NAV money market funds, the relevant Member should ensure that the administrative services provided are thoroughly scrutinised and are of a high quality throughout the life of the fund.
- 6.4 Members should have in place the necessary resources to manage and operate IMMFA funds.
- 6.5 Members should not undertake any action that, directly or indirectly, compromises the security of an IMMFA fund's investment holdings.
- 6.6 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 the relevant fund are open for business.
- 6.7 The investments of an IMMFA fund must be in the base currency of the fund.
- 6.8 An IMMFA fund's net assets may be invested in other collective investment schemes which are subject to the requirements contained herein or to equivalent standards as determined by the IMMFA Investment Committee. In the absence of any determination to the contrary by the

IMMFA Investment Committee, funds that are subject to Rule 2a-7 of the US Investment Company Act of 1940 should be construed as equivalent.

- 6.9 Members should ensure that periodic stress testing of each of their IMMFA funds is performed, at a frequency which is determined by the fund’s board of directors as appropriate and reasonable in light of prevailing market conditions.
- 6.10 Members must adhere to the policies and escalation procedures maintained by each of their IMMFA funds as required by the Code.

## **PART VII**

### **Compliance with the Code**

- 7.1 For each of their IMMFA funds Full Members must submit to the IMMFA Board a Letter of Representation confirming their full compliance with the Code, or in the event of any non-compliance, giving details of the nature and duration of any breaches in compliance. This Letter of Representation should be signed by one of: (i) the Chair of the Fund’s Board of Directors; or (ii) the Auditor of the Fund; or (iii) a named representative of the Fund Advisor. The Letter of Representation should be received by the IMMFA Board within six months of the end of a fund’s financial reporting period, and should cover the whole of that reporting period.
- 7.2 The IMMFA Board 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.
- 7.3 The IMMFA Board shall decide what action to take in the event of a breach of the Code. Such action may include, amongst other things, that the relevant Member should be suspended or expelled from membership, that the relevant 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.

## **PART VIII**

### **Transitional provisions and amendments**

- 8.1 The Board of IMMFA may amend the Code, which amendment shall be adopted if approved by a majority of Full Members who vote.

## **PART IX**

### **Definitions**

- 9.1 In the Code the following terms shall have the meanings shown opposite them as follows:

“administrator”	the person or persons who act, variously, as general administrators, transfer agents and/or authorised corporate directors for an IMMFA fund.
“Associate Member”	a Member that provides services to money market funds, but is not itself a promoter of IMMFA funds.
“Board of Directors”	in relation to an IMMFA fund means that fund’s board of directors or, for contractually based vehicles, the board of directors of the manager.
“ESMA”	European Securities and Markets Authority
“family”	in Article 2.8 of the Code means all companies that are included in the same group for the purposes of consolidated accounts or, in accordance with recognised international accounting rules, are regarded as a single body.
“Full Member”	a Member which is a promoter of money market funds.

“High Quality Government Security”	is a debt instrument issued by a sovereign in the official currency of that sovereign, provided that this currency is also the operating currency of the relevant IMMFA fund. In determining which sovereign securities are High Quality Government Securities the investment manager should take into account the credit worthiness of the security and ensure that the security is capable of being traded for same day value with a range of willing counterparties. Debt instruments guaranteed by a sovereign issued or issued or guaranteed by a government agency of a sovereign or a supranational entity can be High Quality Government Securities provided that the security is capable of being traded for same day value with a range of willing counterparties, they are issued in the currency of the fund and, in the case of a government agency, the credit worthiness of the security is the same as the sovereign.
“guidance”	guidance issued by the IMMFA Board, intended to assist Members understand the provisions of the Code, but which is not binding on Members.
“IMMFA”	Institutional Money Market Funds Association
“IMMFA fund”	a European domiciled money market fund subject to the provisions of the Code
“Investment Committee”	The IMMFA committee known as the Investment Committee and which was previously called the Technical Committee.
“Member”	a member of IMMFA, being either a Full Member or an Associate Member.
“money market fund”	A constant net asset value Short Term Money Market Fund under ESMA/2014/1103.
“permanent loss of value”	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.
“reverse repurchase agreement”	A repurchase transaction is an agreement to sell a security, or portfolio of securities, and subsequently buy it back at an agreed price. The terms of the sale and the repurchase (repo) are both agreed at the start of the trade, thereby producing the rate of interest which will be paid for the loan of the cash. <b>A reverse repurchase agreement, or reverse repo,</b> is a means of investing cash. A security is purchased and held as collateral against the loan of the cash subject to an agreement to resell it at the specified price and time in the future.
“statement of clarification”	a statement issued by the IMMFA Board, intended to clarify the provisions of the Code, and which is binding on Members. Failure to comply with such a statement constitutes a breach of the Code.
“the Code”	the Code of Practice issued by IMMFA, as from time to time amended.
“WAL”	weighted average life
“WAM”	weighted average maturity