

## CODE OF PRACTICE

### Mission statement

IMMFA represents promoters of, and providers of services to, *triple-A rated*<sup>1</sup> constant and accumulating NAV *money market funds*<sup>2</sup>, domiciled in the EU (and also in the Channel Islands and Switzerland).

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 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 make explicit the fundamentals on which members' funds are managed;

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<sup>1</sup> In this context, triple-A rated means AAAM from Standard & Poors and Aaa/MR1+ from Moody's. Other rating agencies may use other insignia.

<sup>2</sup> In this Code *money market funds* refer to funds, UCITS registered or otherwise, that comprise diversified pools of high-grade short-dated money market instruments actively managed to offer safety of principal and liquidity. Specifically such funds should not invest in equities or in instruments with equity-like characteristics or be managed to behave like equities.

- c. to set best practice standards to be applied in the management and operation of triple-A rated money market funds;
- d. to require of members a consistent approach to valuing funds, so as to support the reliability, transparency and comparability of the product;
- e. to ensure the regular publication of standardised data about members' funds; and
- f. to ensure that published data is independently checked and confirmed, in order to make transparent the market in the product.

## **Code Part II: Entry criteria for full members**

- 2. Full members are those members that are promoters of money market funds.
- 3. Full members should comply with the criteria set out in this Code in order to gain (as applicants), and continue with, membership of IMMFA.
- 4. Full members must be the promoters of at least one triple-A rated constant or accumulating NAV money market fund domiciled in the EU (or in the Channel Islands or Switzerland).
- 5. Full members must publish data on at least one triple-A rated constant or accumulating NAV fund domiciled in the EU or the Channel Islands or Switzerland, in the standardised format agreed by IMMFA.
- 6. Full members must agree to be bound by this Code.
- 7. Full members must agree to be subject to IMMFA's procedures for breach of this Code.

8. Members should exercise care to ensure that funds that are not compliant with the Code are not promoted as IMMFA-represented funds.

### **Code Part III: Entry criteria for associate members**

9. Associate members are those members that provide services to money market funds, but are not themselves promoters of money market funds.
10. 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.
11. Associate members must, at all times, have a demonstrable connection<sup>3</sup> with the business of manufacturing, managing or distributing money market funds, at least one of which must be a triple-A rated constant or accumulating NAV fund domiciled in the EU (or in the Channel Islands or Switzerland). Investing in a money market fund will not of itself be sufficient to show a 'demonstrable connection'.
12. 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 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.

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<sup>3</sup> The IMMFA Executive Committee is responsible for determining whether an applicant has a 'demonstrable connection' with the industry and is thus eligible to be a member.

13. Associate members must agree to be subject to IMMFA's procedures for breach of this Code.

#### **Code Part IV: Fundamentals for managing funds**

14. Members agree that the main objectives in managing 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, or arrange for the management of, their IMMFA funds in accordance with the general and specific conditions set out below.
15. In addition, members agree to ensure that their IMMFA funds are managed so that they comply with best practice guidance published from time to time by the IMMFA Technical Committee<sup>4</sup>. The remit of the Technical Committee is to provide a forum for industry experts to agree detailed provisions relating to the management of triple-A rated money market funds that will, following consultation, either provide guidance to or be binding on members; in both cases without requiring further changes to the Code.

#### General conditions

16. Subject to specific guidance issued by the Technical Committee, members should ensure that each security held by an IMMFA fund presents appropriate risk for the period during which it is held by the fund. Members are required to take a proactive approach to managing risk to achieve this objective.

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<sup>4</sup> Terms of Reference for the Technical Committee are attached to the Code.

17. Members should ensure that the *administrator*<sup>5</sup> 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 bear responsibility for administrative services arranged for their 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 a fund to use an administrator that is not experienced in handling triple-A rated constant or accumulating NAV money market funds, that member must ensure that the services to be provided are thoroughly scrutinised to ensure that these are of high quality throughout the life of a fund.
18. Members should not undertake any action that, directly or indirectly, compromises the security of a fund's investment holdings.
19. Members must comply with the diversification requirements imposed by the rating agencies.

#### Specific conditions

- 20.** Members must ensure that the weighted average maturity (*WAM*) of assets held in a fund portfolio does not exceed 60 days, except when specific agreement has been reached otherwise with one or more of the rating agencies. When a member has been required by a rating agency to maintain a WAM that is lower than 60 days, then the member must comply with that more stringent requirement for as long as it remains in effect.

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<sup>5</sup> In this context *administrator* refers to the person or persons who act, variously, as Trustees, custodians, general administrators and transfer agents for each fund.

21. Under normal market conditions, members providing constant NAV funds must trade daily.
22. In the event that a member experiences a permanent loss of value in an IMMFA fund<sup>6</sup>, the member should inform IMMFA as soon as reasonably practicable.

### **Code Part V: Valuation of funds**

23. For purposes of valuing the securities in a fund, members should use the straight-line 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 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.
24. For purposes of ensuring that the fund's stated asset value remains close to its realisable value, members should value the fund also 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.
25. Members should ensure that they have in place and adhere to 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 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

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<sup>6</sup> In this context a 'permanent loss of value' means, for a constant NAV 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

Trustees) at an appropriate time. As a guide, the 'appropriate time' could be when the variance in valuation reaches 15bp and again when it reaches 30bp. The purpose of the escalation procedure is to ensure that a 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.

26. Members should ensure that any realised capital gain or loss arising in a fund is dealt with on a consistent basis that is fair to all the investors in the fund. Net realised capital gains or losses that are *material*<sup>7</sup> may be spread, but should not be fed into a fund for a period longer than 60 days, save where a member elects to follow the provisions of SEC Rule 2a-7<sup>8</sup>.
27. Members should take steps to ensure that their pricing sources properly reflect the fair disposal value of the securities in a fund.
28. Securities held in a fund should either be in the base currency of the fund or should be fully hedged back to the base currency of the fund.

#### **Code Part VI: Publication of fund data**

29. Members should publish statistical data on at least one triple-A rated constant or accumulating NAV money market fund domiciled in the EU or Channel Islands or Switzerland, in the weekly *IMMFA* Money Fund Report.

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<sup>7</sup> In this context, 'material' means any gain or loss in excess of 5bp at the portfolio level.

<sup>8</sup> 'SEC Rule 2a-7' refers to the US Securities and Exchange Commission Rule 2a-7 of the Investment Companies Act 1940, which governs the regulation of money market funds in the USA.

30. The data on the fund should be presented in the standardised format agreed by IMMFA.
31. Members should exercise care to ensure that data provided by them about their funds is accurate.
32. Queries made of members in the course of checking and confirming data should be dealt with promptly and in full.

### **Code Part VII: Data checking**

33. This section applies to any member that charges for the provision of third-party data about IMMFA funds (currently it applies only to iMoneyNet, but it would apply equally to any other member who took up this activity). Before publishing data about IMMFA funds the member should ensure that the accuracy of data received is checked, whether by exception reports or other means. If the check reveals discrepancies in the data, then the accuracy of the data should be re-confirmed with the source. The data should not be published until its accuracy has been confirmed, or the data corrected.
34. Should a member have concerns about data published by a third party data provider in respect of another member's funds, such concerns should in the first instance be raised with the third party data provider (currently iMoneyNet). If the data provider is unable to establish whether the concerns are valid, or the complainant is dissatisfied with the response, then either may report their concerns to the IMMFA Technical Committee, who will investigate the circumstances and either confirm the accuracy of the data or require the relevant member to publish a correction.

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

35. Members should comply with this Code. Action will be taken against members who are found to have breached the Code. Although this Code does not define a breach, 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.
  
36. The 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.
  
37. The 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 Board may, at its discretion, publish its decision to the membership or more widely.

Code of Practice approved 5 February 2003

Amended 5 August 2003

## Terms of Reference for the IMMFA Technical Committee

1. These terms of reference set out the work and authority that the Directors of IMMFA delegate to the Technical Committee.
2. The Committee's work is to:
  - a. identify and consider fund management, credit and risk issues, both long and short-term, that impact or could impact on the viability of IMMFA funds, in particular the ability to preserve capital;
  - b. prioritise the work to be done on the issues identified;
  - c. keep the membership informed, promptly and regularly, on progress with these issues;
  - d. keep the Executive Committee of IMMFA informed of the agenda of work put together by the Technical Committee and in particular draw attention to any controversial items; and
  - e. when the work involves additional cost, seek approval from the Executive Committee before committing to any expenditure.
3. The Committee should, where it considers it useful, prepare and issue guidance for members on technical issues. Guidance may take the form of Best Practice Guidance or general guidance. Best Practice Guidance will set standards for members that are binding (although the detail of implementation will usually be at members' discretion).
4. The Committee must consult with members, fully and allowing sufficient time for members to consider the Committee's proposals, when it proposes to issue Best Practice Guidance. The Committee must consider the consultation responses before finalising any Best Practice Guidance.
5. The Committee may use its discretion as to whether it is necessary to consult on general guidance. General guidance will not be binding on members.
6. Any member of IMMFA may take a place on the Committee, subject to meeting the following requirements:
  - a. the individual proposed by the member must be an acting fund manager, credit analyst or risk analyst, or have acted recently in one of these roles;
  - b. the individual proposed by the member should be willing and able to participate actively in the Committee's work..
7. The Chair of the Committee shall be elected by the members of the Committee. Once elected, the Chair shall be made a director of the company and shall hold office for the period set in the Articles of Association (1/3 of the directors are obliged to stand down each year).

