IMMFA

INSTITUTIONAL MONEY MARKET FUNDS ASSOCIATION

SUPPLEMENT TO THE CODE OF PRACTICE

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

This document brings together key materials which supplement the IMMFA Code of Practice:

Amended to reflect changes to the Code of Practice agreed 14 April 2015

PART I

STATEMENTS OF CLARIFICATION AND GUIDANCE

In order to assist Members in understanding and applying the Code, Article 1.6 authorises the Board to issue statements of clarification and guidance to Members.

The Code defines guidance as not binding on Members, whereas statements of clarification are binding on Members who should ensure their IMMFA funds are managed and operated so as to comply with them.

Terms used in the statements of clarification and guidance have the same meaning as in the Code.

Article	Subject	Status	Adviser
1.2, 7.1-7.3	Compliance with the Code	Guidance	Board
2.5	WAL calculation	Statement of clarification	Investment Committee
2.5 - 2.6	Use of trade/settlement date	Guidance	Investment Committee
3.1-3.5	Liquidity	Statement of clarification	Investment Committee
4.3 - 4.4	Pricing procedures	Guidance	Investment Committee
5.1 (b)	Portfolio holdings disclosure	Guidance	Board
5.3	Categorisation of assets	Statement of clarification	Investment Committee
6.9	Stress testing	Guidance	Investment Committee

Compliance with the Code

Articles 1.2 and 7.1 to 7.3

Guidance, as advised by the Board

The objective of Articles 1 2 and 7.1 to 7.3 is to provide investors with confidence that the IMMFA fund complies with the Code so that they can be sure of the quality of the product. Accordingly, these Articles:

- Require Members to comply with the Code in respect of their IMMFA funds, and confirm their compliance to a third party (specifically, the fund's board of directors); and
- Empower the IMMFA Board to: maintain a record of Members' compliance; investigate alleged non-compliance; and recommend action in the event that it determines non-compliance.

Article 1.2
Article 1.2 says: "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".

For this purpose, compliance may be considered on a 'best efforts' basis insofar as it depends on the actions of a third-party. For example:

- Article 3.2 requires that IMMFA funds should 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 assets in investments which mature within five business days. A redemption by a shareholder may cause those limits to be breached, notwithstanding the best efforts of the Member. In that case, a Member should be considered to be non-compliant only if it is persistently in breach of Article 3.2, rather than occasionally in breach because of the redemption activity of a shareholder.

Article 7.1

- Article 7.1 says: "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."

It is recommended that Full Members should regularly report compliance with the Code to the board of directors of their funds, for example at each meeting of the board or at each quarter end. Such report should specifically deal with quantitative restrictions imposed by the Code, for example:

- Articles 4.1 to 4.4 amortised/mark-to-market price divergence limit; Article 3.2 liquidity ladder limit; Article 2.6 WAM limit; Article 2.5 WAL limit; etc.

It is recommended that Full Members should notify the board of directors of their funds of all breaches of the Code, and their proposed cure. Members should make this notification either in real time or as soon as reasonably practicable after the event, depending on the significance of the breech.

It is recommended that the annual statement confirming compliance with the Code should be in the following form:

- “We [Member name] confirm that the following IMMFA funds were in compliance with the IMMFA Code of Practice during the period from [xx.xx.xx] to [xx.xx.xx] and that any breaches were made known to the board of directors of the funds and were cured in a manner considered to be in the best interest of all shareholders in the funds. [Append list of IMMFA funds]”

Article 7.2
Article 7.2 says: “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.”

IMMFA Members or any other party may seek guidance from the IMMFA Board on the meaning of the Code (for example, in order to ascertain whether or not an IMMFA fund is in breach). Such requests should be addressed, in the first instance, to the Chairman, and may be requested to be kept confidential.

IMMFA Members or any other party may request an investigation of an alleged breach of the Code. Such requests should be addressed, in the first instance, to the Chairman who will propose whether and how to investigate the alleged breach, taking account of any conflict of interest that may arise.

Article 7.3
Article 7.3 says: “The IMMFA Board shall decide what action to take in relation to 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.”

WAL calculation

Articles 2.5

Statement of clarification, as advised by the Investment Committee

When calculating the weighted average life (WAL), all instruments should be considered.

Use of trade or settlement dates

Articles 2.5 – 2.6

Guidance, as advised by the Investment Committee

The Investment Committee has considered whether Members should use the trade or settlement date for the purposes of calculating the day count contribution to Weighted Average Life (WAL) and Weighted Average Maturity (WAM) of assets in a fund.

The Committee recommends that Members should calculate day count as:

- In the case of WAL, the day count between the current trade date and the final maturity date;
- In the case of WAM, the day count between the current trade date and the interest reset date.

For these purposes, current trade date is defined as the day on which the relevant NAV of the fund is calculated.

Mindful that some Members base day count calculations on the current trade date, and others on the settlement date, but recognising that the difference between the two is negligible, the Committee's recommendation is issued as not binding guidance.

Liquidity

Articles 3.1 – 3.5

Statement of clarification, as advised by the Investment Committee

In general, when calculating WAM, WAL and liquidity, the final legal maturity of each investment should be used, even if there is an active secondary market for those investments.

In the case of an investment in a call account, it should be considered to mature overnight unless the account documentation states otherwise. If the account documentation restricts the proportion of an account that is callable in one day (e.g. not more than 10%) then only that proportion which is instantly callable should be considered to mature overnight, and the remainder should be considered to mature as specified by the documentation.

In the case of an investment in a government security, the final legal maturity should be considered to be the last date on which all principal will be returned in accordance with the terms of the investment. When calculating liquidity, it is not necessarily prudent to treat it as maturing next day irrespective of its actual final legal maturity.

In the case of an investment in a security which has a put option, in order for that put option to be considered as the maturity date for liquidity purposes, the put option must be irrevocable and at the right of the investor. Regard must however be had to any notice period.

In the case of an investment in another money market fund that is an IMMFA fund or its equivalent, it should be considered to mature overnight.

Pricing procedures

Articles 4.3 – 4.4

Guidance, as advised by the Investment Committee

The objective of Articles 4.3 and 4.4 is to ensure Members utilise appropriate escalation procedures when a fund's portfolio is under stress. Such escalation procedures should involve the review of the fund's objective to preserve principal, and the investment strategy devised to deliver on this objective, by competent individuals independent of the fund's investment management team.

Article 4.3
Article 4.3 requires Members to have in place, and adhere to, an escalation procedure for occasions when the value of an 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 require any such variation in valuation to be considered by competent individuals independent of the fund's investment management team, at an appropriate time.

As a guide, the 'appropriate time' could be when the variance in valuation reaches 10bp, 15bp and 25bp. A recommended escalation policy would have the fund administrator notifying the investment manager at 10bp, senior management of the investment manager at 15bp and the trustee and board of directors at 25bp.

Article 4.4
Article 4.4 requires Members to 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 individuals independent of the fund's investment management team who are competent to act for the fund, at an appropriate time.

As a guide, the 'appropriate time' could be when the variance in valuation reaches 25bp and again when it reaches 50bp. At 25bp, 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 board of directors and the trustee, and the investment manager should recommend appropriate action to the board of directors.

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.

Portfolio holdings disclosure

Article 5.1 (b)

Guidance, as advised by the Board

The objective of the requirement of Article 5.1(b) to disclose portfolio holdings at least monthly is to enable investors to assess the risk of portfolio holdings. However, to promote portfolio holdings reporting in a consistent manner across all IMMFA funds, the Board recommends that portfolio holdings reports be provided at least fortnightly, the report date should be the mid- point in the month and the last business day in the month, the report should be issued within 5 business days of the report date and the report should record the following data fields for each holding:

Issuer / Counterparty Bloomberg ID	Issuer / Counterparty name	Counterparty Country	Parent name	Issuer type	Instrument type	Moody's ST rating	S&P ST rating	Fitch ST rating	Moody's LT rating	S&P LT rating	Fitch LT Rating	CCY	Par Value	Pct. of Total Par	Final Maturity Date
Limited	Free form	Limited	Free form	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Limited	Free form	Limited	Free form
ID		ISO 3166-1 alpha-2 code		GOVERNMENT	DEPOSIT	P-1	A1+	F1+	Aaa	AAA	AAA	ISO CODE (3 CHAR)			
				FINANCIAL	CERTIFICATE OF DEPOSIT	NR	A1	F1	Aa1	AA+	AA+				
				CORPORATE	COMMERCIAL PAPER		NR	NR	Aa2	AA	AA				
					ABCP				Aa3	AA-	AA-				
					FIXED RATE PAPER				A1	A+	A+				
					FLOATING RATE NOTE				A2	A	A				
					REPO				A3	A-	A-				
									NR	NR	NR				

Categorisation of assets in the IMMFA Money Fund Report

Article 5.3

Statement of clarification, as advised by the Investment Committee

When Members submit data for inclusion in the weekly IMMFA Money Fund Report, and with the intention of generating greater consistency between the presentation of a fund's composition:

- All call accounts and time deposits, irrespective of maturity, should be reported as time deposits.
- All debt issued by the Debt Management Office (DMO) and all floating rate government debt should be recorded under issuer type 'Government'. DMO repo activity should be recorded as 'repo'.
- All floating rate notes must be recorded as FRNs irrespective of whether having passed the final interest reset date.
- No repo may be recorded as time deposits.
- Where an instrument which falls within one of the categories other than 'Floating Rate Notes' also has a floating rate, it should be reported under the instrument type and not by reference to its interest rate.

Stress testing

Article 6.9

Guidance, as advised by the Investment Committee

Article 6.9 requires Members to perform periodic stress tests of their IMMFA funds.

This guidance is intended to help Members consider issues arising. It is not intended to be exhaustive.

Ultimately, a fund's Board needs to determine the frequency and severity of stress testing, taking account of: prevailing market conditions; the board's overall risk appetite; and the nature, size and complexity of the fund.

General
A money market fund is exposed to the following material risks: credit risk; interest-rate risk; and liquidity / redemption risk.

For each of these material risks, various scenarios should be analysed. The scenarios considered should be plausible yet testing; this guidance provides some recommendations, but the severity of the analysis should reflect the risk appetite of the board of directors. We now have the "advantage" of the money markets and short-term fixed income markets having gone through a period of extreme stress creating back test data to be used in the scenario analysis. In addition, a stress test should be conducted which should identify the situation which results in a variance of 50bp or more between the amortised cost valuation and the mark-to-market valuation of the fund, i.e. the point at which the fund will break the buck. It is also recommended that a stress test is conducted at a 25bp variance level as this has become a trigger level for some rating agencies to consider rating action on funds.

The scenario analysis and stress test should be conducted at least once a month.

For each scenario and stress test, senior management and/or the board of directors should determine whether to accept the risk, or take actions to mitigate the impact. Where management actions are taken, these should be documented together with the results of the analysis to indicate acceptance or otherwise.

The results of the stress test should be reported to the board of directors, in order that those individuals with responsibility for the interests of investors are in a position to determine whether to take any mitigating actions. The directors should consider the probability of the stress occurring when considering whether to take any mitigating actions.

The results of the stress tests should be documented, with quantitative data demonstrating the impact of the scenarios and stresses applied. The documentation should outline the impact of the scenario and/or stress before any actions are taken. Where the directors and/or management have determined that actions are necessary, these should be identifiable within the documentation. Details of all key assumptions which have been included as part of the analysis should be included in the documentation. It is recommended that members retain documentation in a format which can be easily provided to a regulatory authority.

Credit risk

Individual asset events

A number of different scenarios should be considered which include the downgrade of individual asset ratings. The number and severity of the downgrades should be consistent with the risk appetite of the directors of the fund.

For each scenario, the impact of the downgrade should be considered through the impact on the NAV of the fund. Where assets may be sold, the impact of any realised losses should be considered, including the likelihood of a sale being made.

If not already identified, a stress test should be conducted which determines the point at which the fund's NAV falls below 0.9975 and a scenario where the fund breaks the buck (the fund's NAV falls below 0.9950).

Systemic spread widening
To consider the impact of a systemic widening of credit spreads on the fund, a number of scenarios should be applied to the fund to determine the impact of variance in credit spreads. The magnitude of the variance should be consistent with the risk appetite of the directors of the fund.

In addition, a stress test should be conducted which determines the size of the variance which would result in the fund's NAV falling below 0.9975 and a scenario where the fund breaks the buck (the NAV falls below 0.9950).

Interest rate risk
The impact of movements in interest rates on the assets within the fund should be considered, and also the impact on the overall fund.

Scenario analysis should be conducted which consider the impact of a variety of movements in interest rates (parallel shifts, yield curve flattening, yield curve steepening and yield curve twists should be considered). The movement may be either a percentage change or a fixed amount; for example, a 20% move or a 150bp change. The scenarios which are considered should be consistent with the risk appetite of the directors of the fund, and should be agreed in advance.

A stress test should then be conducted which determines the amount of movement in interest rates (parallel shifts, yield curve flattening, yield curve steepening and yield curve twists) which would result in the fund's NAV falling below 0.9975 and a scenario where the fund breaks the buck (the NAV falls below 0.9950).

Liquidity risk
The impact of a significant volume of redemption requests should be considered to determine the ability of the fund to process those redemption requests at par. A variety of scenarios should be considered of varying severities; for example, 20%, 40% and 60% of the portfolio. The severity of the scenarios considered should be consistent with the risk appetite of the directors of the fund.

A stress test should also be conducted to determine the volume of redemption requests which must be received before the fund is no longer able to offer redemptions at par, i.e. to a level where the fund falls below 0.9950. In addition, a stress test should be conducted which determines the size of redemptions which would result in the fund's NAV falling below 0.9975.

The investment manager should then determine whether mitigating actions should be taken to increase the liquidity of the overall portfolio. Consideration should therefore be given to the liquidity of the secondary market at that point in time.

Combined stresses
Recent experience has demonstrated the possibility of positive correlation of these risks. To simulate such stresses, members should assume a perfect correlation between all risks, i.e. the occurrence of all risks at once.

To determine the severity of each element of the stress test (i.e. credit, market, interest rate and liquidity), members should use known historic worst case scenarios which have occurred, irrespective of whether correlated to other risks or not.

However, depending on the risk appetite of the directors of the fund, the severity of the test might be increased should it be determined that a more extreme scenario should be applied to the fund.

A stress test should then be conducted to determine the impact of a perfectly correlated stress event. The quantitative output should be recorded, and senior management should determine whether to take any mitigating actions. Where mitigating actions are taken, the impact of these actions should be recorded together with the results of the stress test.

PART II

ELIGIBILITY OF ASSSETS

This is an official record of decisions of the Investment Committee pursuant to Article 2.10 of the Code:

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.

Interest rate swaps and currency swaps

Interest rate swaps are over the counter derivatives that allow investment managers to exchange payments of interest rates from variable to fixed, or vice versa.

Currency swaps are over the counter derivatives that allow investment managers to exchange one aspect of a loan in one currency for the equivalent aspect of an equal loan in another currency.

On 22 February 2012, the Investment Committee concluded that interest rate swaps and currency swaps *are not eligible assets* of an IMMFA fund, because:

- Dis-allowing their use enables MMFs to be more easily understood by investors.
- Their use may make it more difficult to accurately price portfolios.
- Swaps can be less liquid instruments in periods of volatility. They may also damage overall portfolio liquidity as the fund may have to unwind a position/positions and "derivative hedge".
- They may cause the fund to become leveraged.
- Their use may be misleading to investors if risks are not properly disclosed.

Accordingly, under Article 2.10 of the Code, an IMMFA fund may only invest in interest rate swaps and currency swaps if its directors approve and full disclosure of such investment or ability to invest is made to the fund's shareholders.

Puttable bonds

Puttable bonds are bonds that have an embedded put option. The holder of the puttable bond has the right, but not the obligation, to demand early repayment of principle at a determined timed.

On 22 February 2012 the Investment Committee concluded that bonds with puts embedded in them *are eligible assets* of an IMMFA fund, because they are a useful tool to reduce portfolio risk.

PART III

REGULATORY MATERIAL

CESR's guidelines concerning eligible assets for investment by UCITS (Ref CESR/07-44b)
http://www.esma.europa.eu/system/files/07_044.pdf

CESR's guidelines on a common definition of European money market funds (Ref CESR/10-049)
http://www.esma.europa.eu/system/files/10_049.pdf

ESMA's questions and answers on a common definition of European money market funds (Ref ESMA/2012/113)
http://www.esma.europa.eu/system/files/2012-113.pdf

Review of the CESR guidelines on a Common Definition of European Money Market Funds (Ref ESMA/2014/1103)
http://www.esma.europa.eu/system/files/2014-esma-1103_esma_opinion_on_cesr_guidelines_on_mmfs.pdf