IMMFA Principles of Best Practice

Version 1; Approved on 7 December 2017; Effective 1 January 2018

The Institutional Money Market Funds Association (IMMFA) is a trade association that represents persons whose regular occupation and business is the establishment, management or marketing of money market funds domiciled in the European Economic Area or the Channel Islands or Switzerland or whose regular occupation and business is the provision of services to such persons.

By joining IMMFA, members commit to providing their investors with a valuable fiduciary service by managing their funds with diligence and integrity.

For the avoidance of doubt, this document is provided for information purposes only in an effort to foster good practice within the industry, and should not be construed as advice as to the nature and extent of any legal and regulatory obligations relevant to members. This is a private document that forms part of the framework of documents that governs membership of IMMFA and does not, therefore, have legal force and effect outside of this state purpose.

Background

IMMFA developed a Code of Practice in 2004 that has applied to its members ever since. In 2017 a new European Regulation for money market funds became law. Most of the provisions of the Code of Practice now appear in the Regulation and therefore the Code in its original form is no longer needed.

Instead, IMMFA members have agreed to be bound by these Principles of Best Practice. The Principles have two purposes, both of which are intended to support investor confidence in the industry.

- To describe in plain English the key requirements that apply to money market funds and that operate to protect investors and markets; and
- To describe additional practices beyond the applicable regulatory requirements where these are considered necessary for the good governance of the funds.

Members' Statement

Money market fund managers join IMMFA because they consider there to be value in a trade association that promotes the money market fund product and which champions best practices in the management of money market funds. IMMFA seeks to provide both customers and policy-makers with greater assurance regarding its members' funds.

"IMMFA Funds" are funds that are domiciled in the European Economic Area, Switzerland or the Channel Islands, and which are compliant with EU Regulation 2017/1131. They may be Constant Net Asset Value, Low Volatility Net Asset Value, or Variable Net Asset Value funds; and they may be Short-Term or Standard funds. IMMFA Full Members agree to manage and operate their funds in accordance with these Principles of Best Practice. Associate Members of IMMFA agree to act in accordance with the Principles of Best Practice, to the extent that they are relevant to them. Funds that are not compliant with the Principles should not be promoted or labelled as "IMMFA funds".

IMMFA Full Members should ensure that fund directors, trustees, administrators and other individuals that might be affected by the Principles, are aware of the Principles and the responsibilities that arise from them. Full Members of IMMFA are required to self-certify their compliance with these Principles on an annual basis, in a form determined by the Board.

A) Objectives of IMMFA funds

The primary objectives of an IMMFA fund are to provide investors with:

- security of capital; and
- high levels of liquidity, allowing timely access to their capital.

A secondary objective is to provide a return that is in line with prevailing money market rates.

B) Risk Management

IMMFA members should assess the investment risk of each instrument that is held in a fund. This assessment should take account of the general characteristics of the instrument type or class, including its susceptibility to market risk and its liquidity profile. It should also take account of the specific characteristics of each instrument, including the credit profile of the issuer.

Members should avoid a mechanistic approach to the assessment of credit risk. The credit assessment process should take account of, but not rely solely upon, ratings provided by recognised credit ratings agencies. It should include a proprietary credit assessment of each instrument held in a fund from the point of purchase and until the instrument has reached maturity or has been sold.

If members make use of financial derivative instruments such as interest rate swaps or foreign currency hedges, they should set clear limits to the proportion of the fund that may be invested in such instruments. In addition, they should document their approach to the management of the distinct risks associated with such instruments and share this information with their investors.

Members should not make use of leverage in IMMFA funds, other than the lending of assets for cash through repo transactions within the limits set out in EU Regulation 2017/1131.

Members should conduct regular stress-tests for their funds to assess their resilience under a variety of scenarios, including shocks to the market pricing of duration, credit, liquidity, as well as the impact of significant redemptions by investors. The results of these tests should be reported to the fund's Board of Directors on a regular basis. In addition, Members should ensure that a timely and robust escalation process is in place to deal with any events that impact adversely on their funds.

Members should ensure that any operational services critical to the safe management of their funds are reliable, properly documented, and replaceable in short order.

C) Pricing of Assets

IMMFA members should ensure that the administrator of their funds is competent in handling the administration of Short Term Money Market Funds and/or Standard Money Market Funds. They should review the administrative services provided to their funds, whether directly or outsourced, and should ensure that these services are of high quality throughout the life of a fund.

Money market funds are portfolios of assets, managed for the benefit of their investors (who are unit holders in the funds). Funds are traded daily, and it is essential, therefore, that the price of each asset in the portfolio be valued daily. To ensure that all investors are treated equally these asset valuations must be fair and accurate, for which reason pricing sources and the pricing process must not be carried out by those who manage and market the funds. This independent pricing process constitutes a daily check on the value of the Fund.

Members should require their administrators to use recognised independent sources for pricing data, which properly reflect the fair disposal value of each instrument in the fund. The pricing of instruments should be made on a consistent basis for instruments of comparable maturity and type. In addition, the pricing process should be transparent. The assets should be valued using mark-to-market pricing wherever possible, however when pricing models or pricing matrices are used they should be appropriately documented. If reliable market prices are temporarily unavailable for some assets, owing to market dislocation, members should exercise their fiduciary discretion to ensure that a fair price for these assets is recorded.

D) Fund Disclosures

IMMFA members should publish to Fund investors, at least weekly, key fund data, including:

- the liquidity profile;
- the portfolio composition, including a maturity breakdown and details of the largest holdings;
- the weighted average maturity (WAM) and the weighted average life (WAL);
- the use of any financial derivative instruments; and
- the use of any investments in other UCITS funds or AIFs.

Where applicable, Members should also explain the accounting approach used by the Fund for valuation purposes, for example, the use of amortised cost accounting and the use of rounding.

Members agree to provide such data as is required to produce the various IMMFA Money Fund Reports. They should exercise care to ensure that this data is accurate and should advise IMMFA of any inaccuracies that occur in the publication of such Reports. They also agree to respond promptly to inquiries made by IMMFA regarding this and other data that is in the public domain and which relates to their IMMFA funds.

E) Know Your Customer

IMMFA members should employ a thorough process of "Know Your Customer" for each of their funds. They should be able to demonstrate knowledge of the character of their fund investors, including the type and the domicile of the institution. In addition, they should seek to establish the normal transactional behaviour patterns of major investors in the fund.

When presenting their funds to prospective investors, IMMFA members should draw attention to the difference between a money market fund and a bank deposit; they should make clear that the objective to preserve capital does not constitute a guarantee. IMMFA members should explain clearly the investment strategy and risk profile of each of their IMMFA funds and whether the fund is a Short-Term Money Market Fund or a Standard Money Market Fund.

F) Breaches of the Principles

The IMMFA Board is responsible for investigating (or declining to investigate) alleged material breaches of the Principles of Best Practice. It may investigate in a way of its choosing, subject to ensuring that any conflict of interest that might arise is appropriately addressed during the investigation. The IMMFA Board shall decide what action to take in the event of a breach of the Principles of Best Practice and may, at its discretion, publish its decision to the membership or more widely. 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 period, or that no action should be taken.

G) Status of the Principles

The IMMFA Principles of Best Practice replace the IMMFA Code of Practice, which has been superseded by EU regulation. The Principles are supererogatory upon any legal or regulatory requirements applicable to an IMMFA fund in the jurisdiction in which it is domiciled, including particularly the EU Regulation 2017/1131 (dated 14 June 2017).

In the case of a conflict between the Principles and applicable legal and regulatory requirements, the latter would take precedence.