European Commission

ROADMAP	
TITLE OF THE INITIATIVE	Delegated Act on Money Market Funds Regulation
LEAD DG – RESPONSIBLE UNIT	FISMA C4
LIKELY TYPE OF INITIATIVE	Commission Delegated Regulation
INDICATIVE PLANNING	*Q2 2018*
ADDITIONAL INFORMATION	

This Roadmap aims to inform stakeholders about the Commission's work in order to allow them to provide feedback and to participate effectively in future consultation activities. Stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have. The Roadmap is provided for information purposes only and its content may change. This Roadmap does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content.

A. Context, Problem definition and Subsidiarity Check

Context

On the 30 June 2017, after 4 years of negotiation, the Regulation on Money Market Funds (MMF) was published in the Official Journal. This Regulation was one of the last reforms to complete the post-financial crisis regulatory efforts to reduce financial stability risks posed by shadow-banking activities. The key objectives of the Regulation are to reduce systemic risks in future and to limit assets-liabilities mismatches (i.e. run on the funds) to foster the stability of the financial markets. The MMF Regulation empowers the Commission to adopt three delegated acts, following the technical advices to be delivered by European Securities and Markets Authority (ESMA). In particular:

- two empowerments for delegated acts are foreseen to ensure that every MMF manager invests in assets that received a favourable credit risk assessment. One of them refers to the assets the manager invests directly; the other delegated act refers to the received collateral from a reverse repo agreement that must also receive a favourable assessment. The credit risk assessment is one of the core tasks of every MMF manager in order to ensure the quality of the MMFs. The Commission decided to bundle the empowerments of these two delegated acts as the analysis for the credit risk assessment is the same. ESMA has been asked to provide technical advices for these delegated acts;

- a third empowerment for delegated act is foreseen to ensure full compliance of the provisions in the MMF Regulation with criteria for Simple Transparent Standardised Securitisation (STS) and Assets Back Commercial Papers (ABCP) under the STS Regulation. The STS Regulation was not finalised before the adoption of the MMF Regulation, therefore the Commission is empowered to introduce a cross-reference to the criteria identifying STS securitisations and ABCPs.

The co-legislators introduced the first two empowerments with the aim of specifying the conditions for granting a favourable credit risk assessment by the MMF manager before investing in an asset or before receiving collateral as part of a reverse repo agreement. Those two empowerments are important for MMFs and for the financial market stability and its financing. MMFs are short term investment funds with requirements to invest in assets expected to be highly liquid and of high quality. To ensure the high level of liquidity and quality of those assets, MMF managers should properly perform a credit risk assessment of the assets.

In particular, the Commission has been empowered to specify the criteria for the validation of the credit quality assessment methodology and the liquidity and credit requirements (both quantitative and qualitative) for the assets the MMFs invested into and the assets received from a reverse repo agreement applicable to EU and non-EU public authorities/entities.

The third empowerment is limited to the establishment of a cross-reference for MMF manager to use the criteria to invest into securitisation transactions identified for STS securitisations and ABCPs in the corresponding provisions of the STS Regulation.

To ensure coherence between those provisions, which should enter into force at the same time, and to facilitate a comprehensive view and compact access to them by persons subject to those obligations, it is desirable to include these delegated acts in a single Regulation. In addition the provisions of this Regulation are closely linked in terms of substance since they all deal with investment requirements applicable to MMF.

Problem the initiative aims to tackle

All these three empowerments are necessary to ensure the quality of the portfolio in which the MMF funds can invest. MMFs have a requirement to invest in high-quality eligible assets. Therefore, MMFs should have a prudent internal credit quality assessment procedure for determining the credit quality of the money market instruments, securitisations and ABCPs in which they intend to invest directly or intend to receive as part of reverse repo agreement.

The first two empowerments tackle the need to introduce, detailed requirements for the methodology for a proper credit risk assessment in order to ensure that the MMF manager performs his tasks properly. Without harmonised action at EU level in this area, each MMF manager may have a different interpretation of "favourable assessment" and could apply divergent definitions of the eligible securitisation. As a consequence, suboptimal credit risk assessment based on low expectations or low requirements of certain MMF managers could compromise the high standards required by the MMR Regulation.

However the methodology should ensure a proper credit risk assessment but avoid too prescriptive an approach in order to avoid that all MMF managers use the same credit risk assessment (which would reinforce the systemic risk by creating a pro-cyclical effect).

The aim of the third empowerment is to link the MMF Regulation with the STS Regulation. Specific criteria have been introduced in the STS Regulation specifying the quantitative and qualitative liquidity and credit quality requirements applicable to STS and ABCPs. As a consequence, the MMF Regulation empowers the Commission to cross-refer to those criteria in a delegated act in order to ensure consistency in the EU legislation and to foster the investment in STS securitisation and ABCPs.

Subsidiarity check

This initiative is based on empowerments in Articles 11(4), 15(7) and 22 of MMF Regulation. This initiative concerns the functioning of the internal market.

The cross-border effects of potential failure of one or several MMFs would affect all EU Member States and also countries outside the EU. Investment into high quality assets is vital for the stability of this type of investment funds. A definition of basic requirements for the solvability of the issuer of financial instruments and the quality of the instruments as such is therefore vital for the stability of the financial markets as well as protection of investors. Investors in MMFs are often large corporate and institutional investors who temporarily invest excess cash in such instruments. Liquidity and solvency problems of MMFs would have a fast spill over effect not only on other market participants but also on real economy.

Convergence in quality standards setting may not be ensured by a single Member State and instead requires a joint and harmonised approach at the EU level. This is particularly true for problems created due to a regulatory failure. This initiative seeks to propose a set of minimum rules at the EU level. In order to ensure a balanced and proportionate approach, it will, however, leave sufficient discretion for the MMF manager to properly assess the quality of assets to be invested in.

Since the objective of the MMF Regulation (ensure uniform prudential, governance and transparency requirements that apply to MMFs throughout the Union) cannot be sufficiently achieved by the Member States but can rather, by reason of its scale and effects, be better achieved at Union level, the Union may adopt measures in accordance with the principle of subsidiarity.

B. What does the initiative aim to achieve and how

The objectives are set out in the MMF Regulation (articles 11, 15 and 22 of the Regulation on Money Market Funds).. According to article 11 the Commission is empowered to adopt a delegated act by six months from the date of entry into force of the STS Regulation. According to article 15 and 22 the Commission is empowered to adopt delegated acts by 21 January 2018 specifying a methodology for quantitative and qualitative liquidity requirements. The methodology should ensure a proper credit risk assessment but avoid too prescriptive an approach in order to avoid that all MMF managers use the same credit risk assessment (would reinforce the systemic risk by creating a pro-cyclical effect) when investing in assets or receiving collateral from the reverse repo counterpart.

C. Better regulation
Consultation strategy
On 24 May 2017, ESMA published a public consultation on their draft technical advice under the MMF Regulation. The consultation was opened until the 7 August. In consequence the Commission does not plan to run a public consultation. A Four weeks scrutiny period will be launched in order to receive additional feedback from those received during the ESMA consultation.
Impact assessment
An impact assessment is not planned by the Commission as ESMA will perform a cost-benefit analysis. The ESMA cost-benefit analysis received is sufficient.
Evaluations and fitness checks
Link to ESMA consultation https://www.esma.europa.eu/press-news/esma-news/esma-consults-money-market-funds-rules Link to responses to ESMA consultation: https://www.esma.europa.eu/press-news/esma-news/esma-publishes-responses-its-consultation-under-mmf-regulation Link to ESMA final report: https://www.esma.europa.eu/document/technical-advice-draft-implementing-technical-standards-and-guidelines-under-mmf-regulation