Defining an IMMFA Money Market Fund

All money market funds should provide security of capital and liquidity, but there is not yet a common global definition for these funds.

Differing regulatory landscapes

IMMFA money market funds are domiciled in Europe and regulated in accordance with the EU’s UCITS Directive. This legislation defines the rules which all pan-European funds must follow, much like the Investment Company Act of 1940.

Since 2010, CESR has been renamed as ESMA, the European Securities and Markets Association. The ESMA Guidelines were introduced in 2011. Their definition distinguishes between two sub-categories – ‘Short-Term Money Market Funds’ and ‘Money Market Funds’ – and outlines a number of parameters which funds must meet in order to fit into a given sub-category.

Any fund in Europe which falls outside these two sub-categories can no longer call itself a money market fund. Investors will be certain that anything called a money market fund is operating with the provision of security as its main objective.

The Short-Term Money Market Fund category, which includes all funds represented by IMMFA, must meet the following:

- a maximum Weighted Average Maturity, or WAM, of 60 days;
- a maximum Weighted Average Life, or WAL, of 120 days;
- hold no security which has a final legal maturity of more than 397 days;
- invest in securities with a short-term rating of A2 or better; and
- conduct periodic stress testing.

IMMFA’s additional requirements

Since 2003, IMMFA members have adhered to the IMMFA Code of Practice. The COP is significantly more stringent than the ESMA Guidelines. The IMMFA Code is designed to deliver best practice standards in the management and operation of money market funds. These requirements aim to provide investors with a product that is resilient and able to effectively manage and mitigate risks.

The Code is updated to make sure it reflects current market practices. In particular it was amended to reflect the tightening of Rule 2a-7 in the US in 2010.

Like the ESMA Guidelines, the IMMFA Code includes a number of qualitative and quantitative criteria. In addition to the requirements of the ESMA Short-Term sub-category, all IMMFA money market funds should:

- have minimum amounts of overnight and one week securities; and
- implement a formal liquidity management policy; and
- maintain a AAA money market fund rating at all times;
- follow disclosure obligations designed to provide information which investors can use to quantify risks and compare funds; and
- follow guidance for pricing securities.

Ask about IMMFA funds

IMMFA funds undertake to meet the additional obligations of the COP, and this should further enhance their resilience and transparency. The rigid set of parameters within which IMMFA funds operate should
Defining an IMMFA Money Market Fund

help provide a product that is managed in the best interests of shareholders in the fund.

Robust money market fund frameworks

Both US and IMMFA money market seek to maintain a Constant Net Asset Value (CNAV) and offer same-day access to cash. These funds are exposed to similar risks (interest rate, credit, liquidity and operational) which need to be managed and mitigated.

<table>
<thead>
<tr>
<th>US Rule 2a-7</th>
<th>IMMFA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max. WAM</td>
<td>60 days</td>
</tr>
<tr>
<td>Max. WAL</td>
<td>120 days</td>
</tr>
<tr>
<td>Max. final maturity</td>
<td>397 days</td>
</tr>
<tr>
<td>Min. liquidity</td>
<td>10% overnight; 30% one week</td>
</tr>
<tr>
<td>Min. credit quality</td>
<td>A2 or equivalent</td>
</tr>
<tr>
<td>Diversification</td>
<td>Generally 5%. &lt;25% for &lt;3 days and &lt;0.5% per A2 issuer</td>
</tr>
<tr>
<td>Stress testing</td>
<td>Periodic</td>
</tr>
<tr>
<td>Disclosure</td>
<td>Holdings, shadow NAV</td>
</tr>
</tbody>
</table>

but this is still subject to a good deal of change.

IMMFA fund managers will continue to offer high quality products tailored to the needs of investors whilst meeting the rigours of the new regulatory framework.

Change ahead?

The regulation of money market funds is currently undergoing further change, both in Europe and in the US. The current expectation is that the new rules in Europe are likely to take effect at some time from 2015 onwards,