

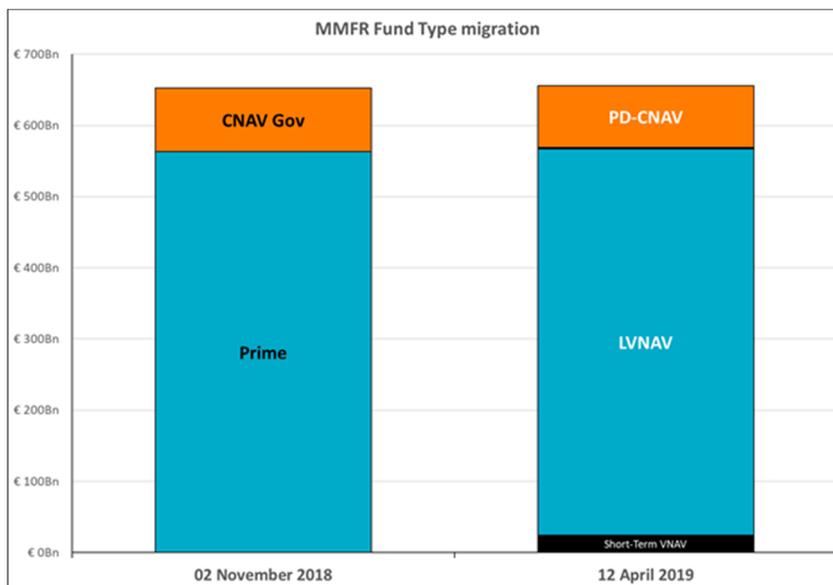
EUROPEAN MONEY MARKET FUNDS POST-REFORM

Summary

- European MMF reform concluded in March 2019. In the end it was more of a bump in the road than an earthquake.
- Know your MMF types: there are now four EU MMF types: Public Debt CNAV, Low Volatility NAV, short-term VNAV and standard VNAV.
- Not much has changed on the surface, but there are detailed changes that will be of interest to investors.
- Post reform, there are now considerable differences between EU and US MMFs.

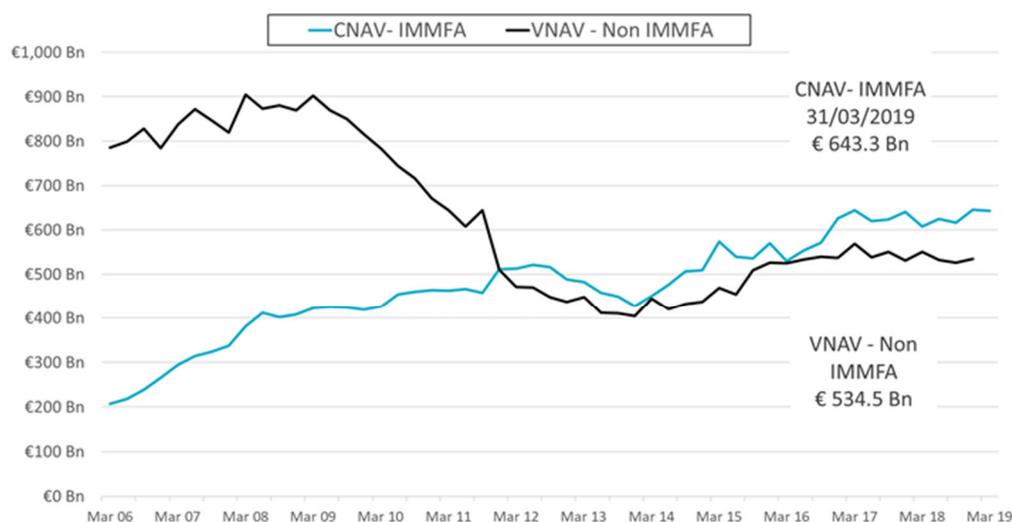
European post-reform highlights

1. The European Money Market Fund Regulation (EU) 2017/1131 (the Regulation) was implemented in full on 21 March 2019.
2. As predicted, investors remained invested overwhelmingly in the same funds as they were in prior to reform:



Responding to the ban on using share cancellation to handle negative yield, also known as the Reverse Distribution Mechanism or RDM, most investors chose an Accumulating share class of a Low Volatility Net Asset Value (LVNAV) for their Euro investment, in place of the curtailed Distributing share class. Demand for a short-term Variable Net Asset Value (VNAV) option was very limited amongst investors in constant NAV funds.

- Assets in the European money market fund (MMF) industry continued to show steady growth for constant NAV funds. VNAV fund balances have remained steady since the Regulation was confirmed in 2017.



Source: ECB, i-MoneyNet

- The VNAV sector continues to show substantial investment in the standard MMF, with the switch from short-term VNAV accelerating after Euro yields went negative.

New EU MMF types

There are now four types of EU MMF under the new Regulation. MMFs are also divided into two categories, short-term and standard. Short-term MMFs are more conservative.

Public Debt CNAV	Public Debt Constant Net Asset Value (CNAV) MMFs are short-term MMFs. Funds must invest 99.5% in government assets. Units in the fund are purchased or redeemed at a constant price rounded to the nearest percentage point.
LVNAV	Low Volatility Net Asset Value (LVNAV) MMFs are short-term MMFs. Funds are primarily invested in money market instruments, deposits and other short-term assets. Units in the fund are purchased or redeemed at a constant price so long as the value of the underlying assets do not deviate by more than 0.2% (20bps) from par (i.e. 1.00).
Short Term VNAV	Short-term Variable Net Asset Value (VNAV) MMFs are primarily invested in money market instruments, deposits and other MMFs. Funds are subject to looser liquidity rules than Public Debt CNAV and LVNAV funds. Units in the funds are purchased or redeemed at a variable price calculated to the equivalent of at least four significant figures (e.g. 10,000.00).
Standard VNAV	Standard MMFs must be VNAV funds. Funds are primarily invested in money market instruments, deposits and other short-term assets. Funds are subject to looser liquidity rules than Public Debt CNAV and LVNAV funds AND may invest in assets of much longer maturity. Units in the funds are purchased or redeemed at a variable price calculated to the equivalent of at least four significant figures (e.g. 10,000.00).

EU MMFs are open-ended investment vehicles, typically authorised under the EU UCITS funds legislation.

The EU MMF Regulation does not make any reference to either fund or portfolio external credit rating requirements. Throughout the transition EU MMFs overwhelmingly retained their existing ratings, and the credit rating agencies have confirmed their commitment to the MMF-specific rating criteria they each maintain.

Key differences between new European MMF types

New fund categories	Public Debt CNAV MMF	LVNAV MMF	Short Term VNAV MMF	Standard VNAV MMF
Fund type	Short Term MMF	Short Term MMF	Short Term MMF	Standard MMF
Eligible investments	99.5% public debt securities, reverse repo secured with govt securities, cash.	MMI, deposits, ABCP, securitisations, reverse repo, repo, derivatives, other short term MMF shares	MMI, deposits, ABCP, securitisations, reverse repo, repo, derivatives, short term MMF shares	MMI, deposits, ABCP, securitisations, reverse repo, repo, derivatives, MMF shares
WAM / WAL	60 days / 120 days	60 days / 120 days	60 days / 120 days	180 days / 365 days
Max maturity	397 days	397 days	397 days	2 years
Daily liquidity	10%	10%	7.5%	7.5%
Weekly liquidity	30%	30%	15%	15%
New fees and gates*	Yes	Yes	No	No
Asset valuation	Amortised cost	Amortised cost, except for assets over 75 days maturity or more than 10bp from market value	Mark to Market	Mark to Market
NAV Type	Constant NAV	Constant NAV	Variable NAV	Variable NAV
NAV particulars	To 2 decimal places (or equivalent), i.e. €/\$/£1.00 Rounds to 50bp, i.e. nearest % point	To 2 decimal places (or equivalent), i.e. €/\$/£1.00 Rounds to 20bp, otherwise Variable NAV applies	To at least four decimal places (or equivalent), e.g. €/\$/£10,000.00	To at least four decimal places (or equivalent), i.e. €/\$/£10,000.00
Shadow NAV calculation	Yes – daily Mark to Market	Yes - daily Mark to Market	N/A	N/A

Source: Regulation (EU) 1131/2017

*UCITS has long-standing provisions on fees and gates. This reference is to additional rules applying both discretionary and mandatory fees or gates to the Public Debt CNAV and LVNAV MMF types in prescribed circumstances. More information may be found in our May 2018 investor pamphlet on EU MMF reform.

Cash equivalence

Many investors are anxious to ensure that the new money market fund types are cash equivalent. Whilst it is not possible to give a blanket ‘yes’, the expectation is that funds that were cash equivalent before reform should continue to be so post-reform. The post-reform European MMF categories are generally more conservative in their construction than before, with close attention paid to liquidity and credit management.

In the US, the SEC were able to confirm the cash equivalence of all MMFs subject to Regulation 2a7. Whilst this was not done in the EU Regulation, the legislation was enacted for precisely the same reasons as in the US and to arguably the same effect. Helpfully the Autorité des Normes Comptables (the French accounting standards authority) has issued their guidance supporting the cash equivalent status of EU MMFs – this may be accessed [here](#).

Post-Reform: US MMFs and EU MMFs

The US and EU money fund industries remain the largest developed money fund markets in the world.

Although the starting products were similar, there are now considerable differences between US and EU MMFs. Whilst EU MMF investors mostly moved to successor fund types, investors in US MMFs undertook a huge and persisting switch from Prime into Government MMF.

A major difference in scope is that, on a like-for-like basis, US MMFs may be compared only to EU short-term MMFs.

Region	Govt / Public Debt CNAV	Prime / LVNAV	Prime / VNAV	TOTAL ASSETS
USA (SEC2a7)	€2,116.9bn	Nil	€865.7bn	€2,982.6bn
EU (MMFR – short-term MMF only)	€90.8bn	€528.0bn	€109.9bn (estimate)	€728.7bn
EU (MMFR – short-term & standard MMF)	€90.8bn	€528.0bn	€558.9bn (at 31.12.18)	€1,177.7bn

Source CNAV/LVNAV funds: IMMFA. Source EU VNAV funds: ECB and IMMFA. Source US funds: SEC. Figures at 31 March 2019 unless shown otherwise.

Investor tips

- Be aware of differences in EU money market fund products. The rules are different for each MMF category, in particularly the Standard VNAV type.
- Raise any queries to your Fund Manager and provide feedback on the results of quarterly reporting, cash equivalent status or any issues for your organisation.
- There will be a 5-year review of the Money Market Fund Regulation (by July 2022). IMMFA, its members and the industry will monitor this work and keep clients apprised of developments.