Press Statement

European Parliament Plenary vote on EU Money Market Fund Regulation

London, 29th April 2015

Today a full plenary session of the European Parliament (EP) agreed its position on Money Market Fund Regulation (MMFR). This report is the Parliament's response to a legislative proposal put forward by the European Commission (EC) in September 2013.

The agreement by Parliament is another milestone in the EU 'codecision' process. Separately, the Council of Ministers (CoM), senior representatives from the 28 EU Member States, is still debating its own position on MMF. Once both the EP and the CoM have agreed their respective positions on the MMFR, the final legislative stage, the Trilogue negotiation with the European Commission, takes place.

It is a positive development that the EP report recognizes that the capital buffer originally suggested by the EC was not a viable proposal for an investment product. It is also worth noting that many of the good market practices which IMMFA funds already adopt voluntarily under the IMMFA Code of Practice, such as credit diversification, prescribed levels of liquidity and a high level of transparency, have been incorporated into the future regulation of money market funds in Europe.

Overall, however, the political compromise that has been reached by Parliament does not augur well for the European capital markets. AUM in European MMF stands at approximately €1 trillion. If implemented, the changes suggested by the EP would have wide-ranging and long-term ramifications for both the constant net asset value (CNAV) and variable net asset value (VNAV) sectors of the money market fund market. The impact on many everyday businesses, local authorities, charities and other MMF investors should not be underestimated. The EP's proposals reflect the political agenda of various MEPs rather than a serious attempt to reduce systemic risk within the European money markets.

The options presented to the CNAV industry, which makes up >50% of AUM, are severely limited under the Parliament's draft. The Retail CNAV and EU Public Debt CNAV options are restricted in scope, and under current market conditions together account for less than 10% of the CNAV AUM. The shortcomings of these two options were clearly identified in the impact assessment commissioned by the European Parliamentary Research Service (EPRS) (see note 2) but do not seem to have been taken into account by MEPs.

The proposed LVNAV structure is not an adequate substitute for the CNAV product. Only a very small proportion of the current CNAV market would be able to transition into this new MMF formulation. Furthermore it is unclear how useful this construct would be to investors. Even then, under a so-called 'sunset clause' the authorisation of these funds would lapse five years after the Regulation comes into force. These measures have potential to destabilise the short-term capital markets for years to come.

IMMFA remains confident that through the ongoing negotiation a more feasible solution for the MMF industry will be found – that promotes financial stability whilst preserving efficient short term capital markets in Europe. IMMFA remains committed to working with all parties involved in the regulatory debate and hopes that in the long run an approach which is both practical and effective will prevail.

-Ends- Notes to editors:

1. IMMFA is the trade association which represents constant NAV money market funds. It was established on 14 June 2000, and currently has 20 members who operate funds and a number of associate members. Funds under management exceeded €580 billion as at mid April 2015 and make up approximately 55% of MMF in Europe

2. The EPRS Impact Assessment can be found here:
http://www.europarl.europa.eu/RegData/etudes/STUD/2015/547545/EPRS_STU(2015)547545_EN.pdf

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