IMMFA
INSTITUTIONAL MONEY MARKET FUNDS ASSOCIATION

Press Release

IMMFA responds to the recommendation of the European Systemic Risk Board on money market funds.

London 21st February 2013

The Institutional Money Market Fund Association (IMMFA) represents managers of high quality money market funds ('MMF') which seek to preserve capital and liquidity. Investors, largely institutional in Europe, find MMF a valuable means of outsourcing credit analysis and of managing diversification of their cash. The fund managers have the skill and resources to offer reliable money market funds within whatever framework the regulating authorities describe, providing the product remains valuable to investors and financially viable for providers of MMFs to offer.

IMMFA supports the aims of enhancing MMFs' ability to manage through all market conditions. IMMFA supports the introduction of prescribed levels of liquidity (similar to those currently adopted in its Code of Practice), of enhancing the levels of investor disclosure and industry reporting and the adoption of a trigger based liquidity charge.

IMMFA fundamentally disagrees with the assessment that Constant Net Asset Value ('CNAV') MMFs are more vulnerable to runs, present a greater 'first mover advantage' or that amortised cost accounting clouds an investor's understanding of the risks involved in investing in a MMF. These conclusions are not supported by the events of 2007/2008 nor by market behaviour since. In our opinion they represent a flawed appreciation of the ways in which money market funds operate.

IMMFA has

- provided data from the crisis to support this view,
- written a paper on the academic research on bank runs which demonstrates why it is not appropriate to liken MMFs to banks, and why a mandatory conversion to Variable Net Asset Value ('VNAV') would not provide any additional protection against potential systemic instability,
- demonstrated the rationale for the use of trigger based liquidity fees to manage run risk and
- compiled data which support its view that the use of amortised cost accounting does not represent a 'fiction'.

This evidence does not appear to be amongst the 'observations of the relevant private sector stakeholders' which have been taken into consideration by the ESRB in the preparation of their recommendation and appears to have been overlooked by those who believe CNAV funds pose a disproportionate risk to the financial system.

A mandatory conversion of MMF from CNAV to VNAV will not contribute to the future stability of the financial sector but it will deprive a large number of investors access to a highly effective tool. A forced conversion renders this product at best inconvenient to the very significant group of investors, of corporates, local authorities, pension funds, universities, charities and others who rely on this accounting technique to facilitate their use of this product. We trust that further consideration by regulators will result in MMF proposals that are effective in mitigating policy concerns whilst preserving the benefits of MMFs to investors and issuers

-Ends-

Notes to editors:

1. About IMMFA **-** IMMFA is the trade association which represents triple-A rated constant NAV money market funds. It was established on 14 June 2000, and currently has 23 members who operate funds and a number of associate members. Funds under management exceeded €490 billion as at December 2012 and make up approximately 50% of MMF in Europe.

2. IMMFA funds are European triple-A rated money market funds which are managed by members of IMMFA and are compliant with the obligations contained in the IMMFA Code of Practice (the Code). The 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.

3. The following documents may be viewed in conjunction with the above statement:

   - Bank Runs, Money Market Funds and the First Mover Advantage v2 January 2013
   - IMMFA, The Use of Amortised Cost Accounting by MMF 13th Feb 2013
   - IMMFA Summary Position (interim 14th Feb 2013)

4. IMMFA has been actively involved in the debate regarding the future of the regulation governing money market funds in Europe. The standards to which our funds operate – determined by the IMMFA Code of Practice – are more stringent than the standards outlined in current European legislation – the ESMA Guidelines.

5. Money market funds are a vital investment tool for institutional investors across Europe. Investors appreciate the diversification, same-day liquidity and segregation of assets offered by these funds. By virtue of their investment in high quality, short-term money market securities, these funds also help provide businesses with access to lower cost financing and contribute liquidity to the European money markets.

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