



IMMFA

INSTITUTIONAL MONEY MARKET FUNDS ASSOCIATION



Keeping Cash Invested in Periods of Market Disruption

Discretionary and Non-Discretionary Managers

September 2021



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EXECUTIVE SUMMARY

Market disruption such as the COVID-19 pandemic, has led to instances where discretionary managers and individuals de-risk portfolios, moving to cash to weather the storm and maintain liquidity for when future opportunities are presented. A consequence of such de-risking is a significant increase in the client money balances of discretionary and non-discretionary investment firms at a time when Banks' ability and appetite to accept further short-term deposits is significantly eroded by large deposits such as those placed throughout 2020 and by the prudential regulatory regimes under which they operate. This is particularly acute where deposits may be considered non-operational or 'excess'. For many firms reporting difficulties identifying suitable counterparties to deposit client money, MMFs are another means of achieving diversification, granting investors access to a larger group of counterparts than would otherwise be practical to do so directly.

Challenges of investing client money in QMMF

Money market funds offer a number of benefits to investors, including diversification of investments and counterparties, same day liquidity, transparency and ease of transacting. Investing in MMFs is discussed in the IMMFA pamphlet on 'Qualifying Money Market Funds: A MiFID2 guide for investing firms placing and administrating client monies'. The Financial Conduct Authority ("FCA") Client Asset Sourcebook ("CASS") gives UK based MiFID investment firms the ability to place client money in Qualifying Money Market Funds ("QMMF") which may be a useful investment solution to capacity constrained bank deposits whilst ensuring appropriate diversification between credit institutions for firms' client money. However, FCA client money rules require firms to obtain consent and make certain disclosures to clients before placing client money in a QMMF which have proved a barrier to many firms. In particular, the requirement that clients must provide explicit consent to the placement of their money in a QMMF.

Money Market Funds (MMF) may yet present an alternative for cash investors

Subject to investor suitability assessments, Money market funds may present an alternative investment product to bank deposits for discretionary and non-discretionary investment firms overseeing historically high client cash positions prompted by de-risking of portfolios. If made available as an investment option for clients of advisory or execution platforms, MMFs may be used as a useful investment option for clients' short term cash allocation, providing an alternative to leaving the cash uninvested. This would reduce firms' need for Client Money balances but enable

Investor benefits

Money market funds offer many benefits to investors, including:

- Diversification of investments across securities and by issuer.
- For many Short Term MMFs, same day liquidity.
- Outsourcing of credit analysis to a professional cash management team.
- Segregation of assets.
- Competitive money market returns
- Diversification away from single counterparty credit risk.

Only IMMFA funds must comply with additional restrictions in the Principles of Best Practice.

investors to keep assets invested until reinvested into different asset classes, should clients choose to invest into a MMF rather than turning to deposits as part of their de-risking strategy. Expanding the products offered via their platforms to include MMFs will help firms retain the assets in their ecosystem, reducing client money balances but at the same time negating the risk that once paid away the money does not return. Similarly, MMFs may be used within discretionary portfolios as a proactive, same day settlement tool, to allocate to cash for short term balances. Discretionary managers may run tactically long cash in a variety of scenarios, allocation to MMF again allows the manager to allocate cash balances in a liquid diversified manner without generating excess uninvested cash positions.

Operational Considerations

Money market funds:

- Ringfenced from liability of balance sheet.
- Can be accessed either through Custody accounts, or often direct to Fund.
- Offer Same day, or even intraday, settlement.
- Are available via various methods of electronic trading and settlement.

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