

European Money Fund reform: almost there!

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Institutional Money Market Funds Association

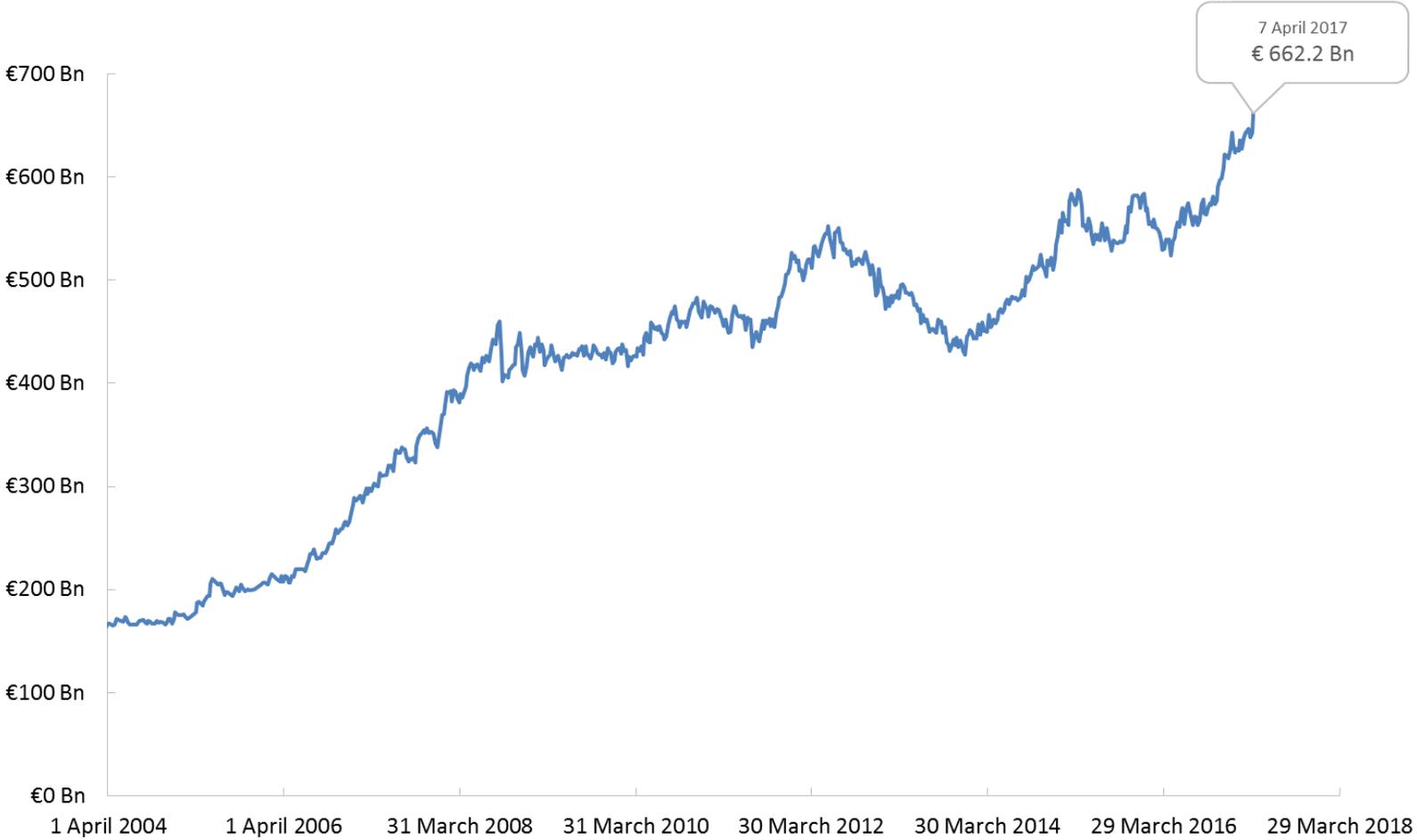
Agenda

- IMMFA Money Market Funds – an overview
- European MMF reform
- The timeline
- Practical tips

IMMFA Money Market Funds – an overview

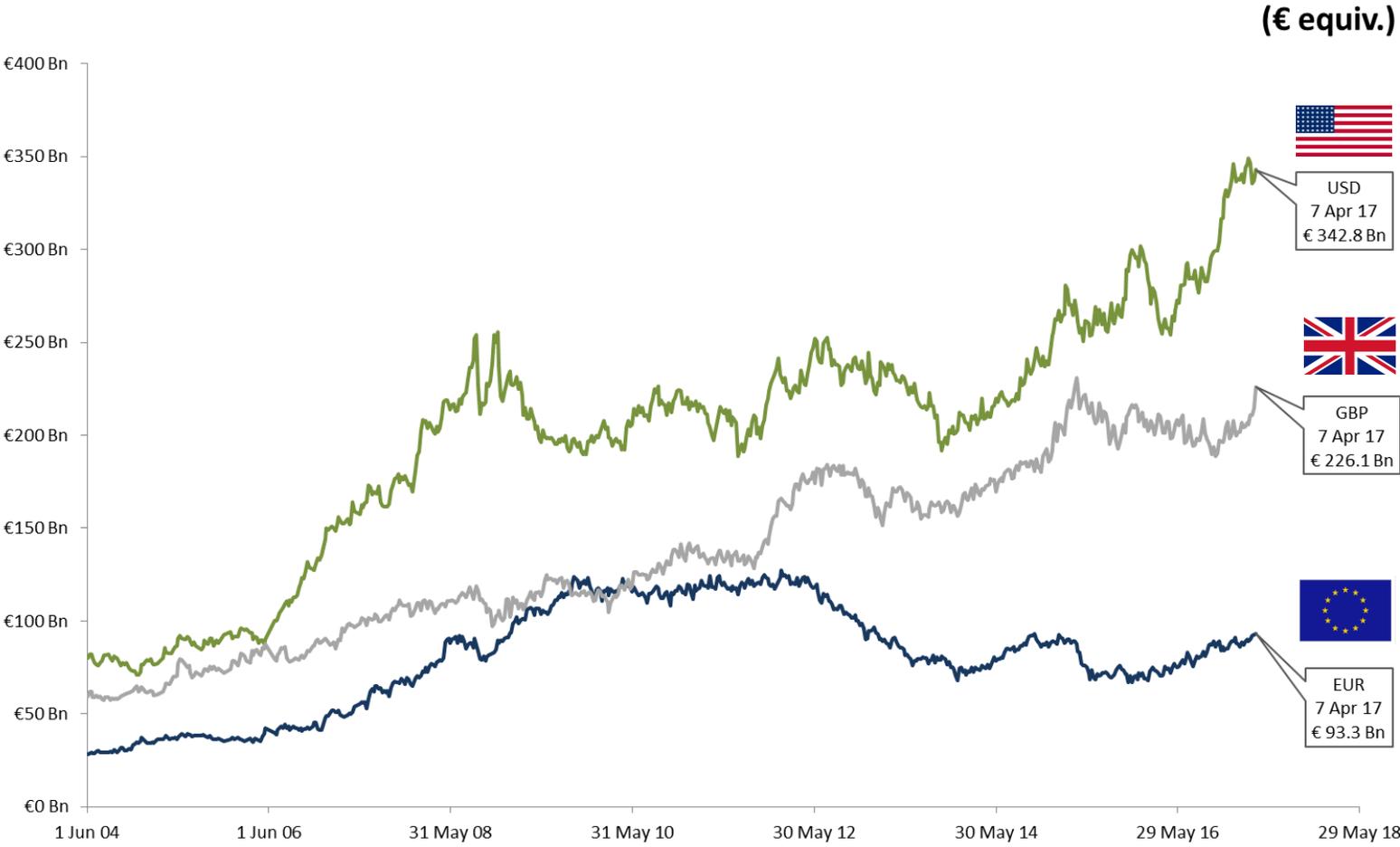
- An investment alternative to depositing cash
- “Liquidity funds”, holding high quality very short term assets
- 3 major currencies offered: €, US\$, £;
- Prime and Government funds
- IMMFA funds are constant NAV money market funds; they aim to return €1 for each €1 invested; usually rated by a Credit Rating Agency
- IMMFA Code of Practice since 2003

IMMFA (CNAV) MMFs in Europe – total assets managed



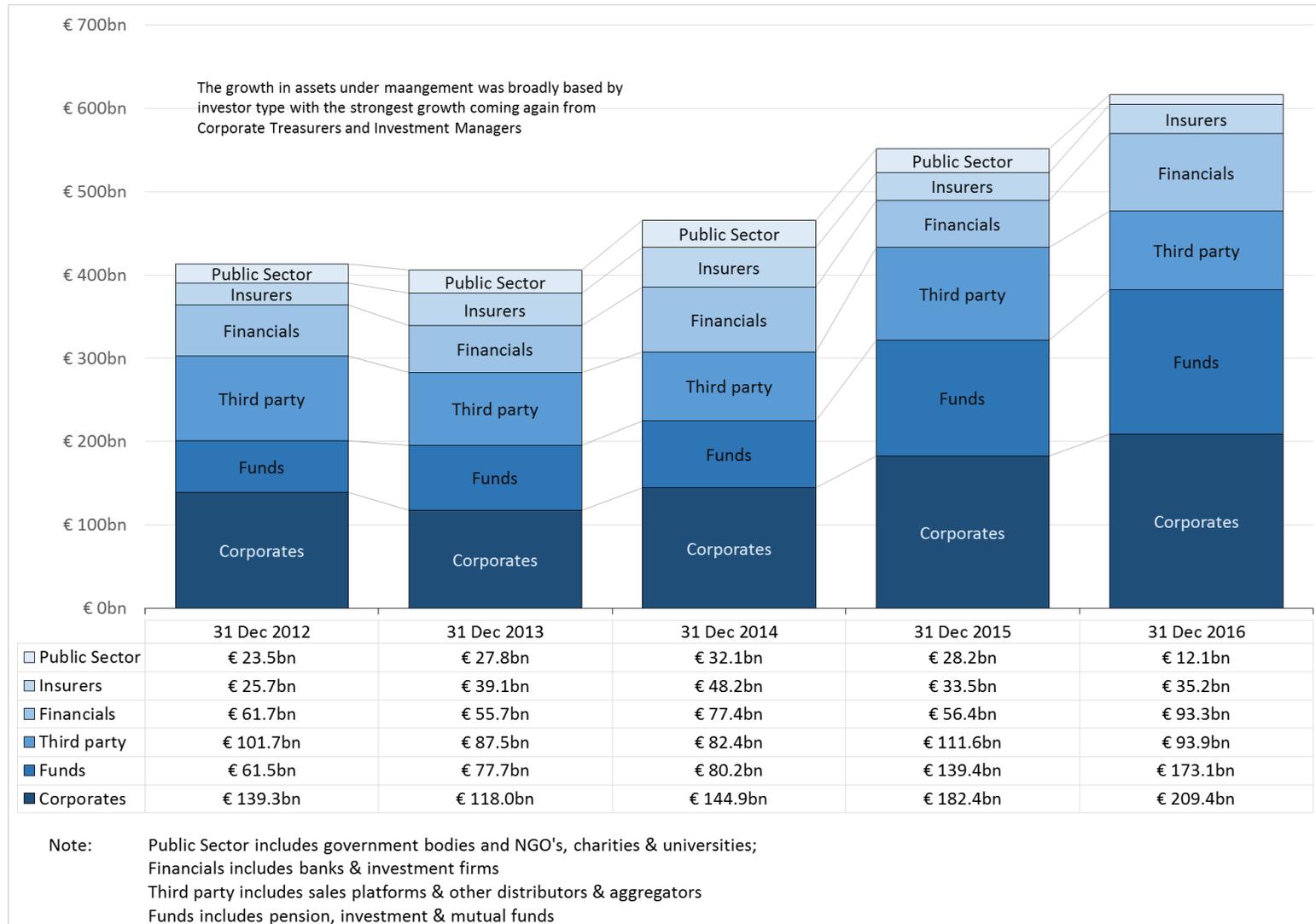
Source: IMMFA

IMMFA (CNAV) MMFs in Europe - assets by currency



Source: IMMFA

IMMFA CNAV MMF – share of assets by investor type



European Money Fund reform: a time of change

MMF Regulation – a 5 year marathon...



MMF reform in Europe: a reminder of who is involved



28 Member States; 24 official languages; 508 million people; European Commission; European Parliament; European Council of Ministers

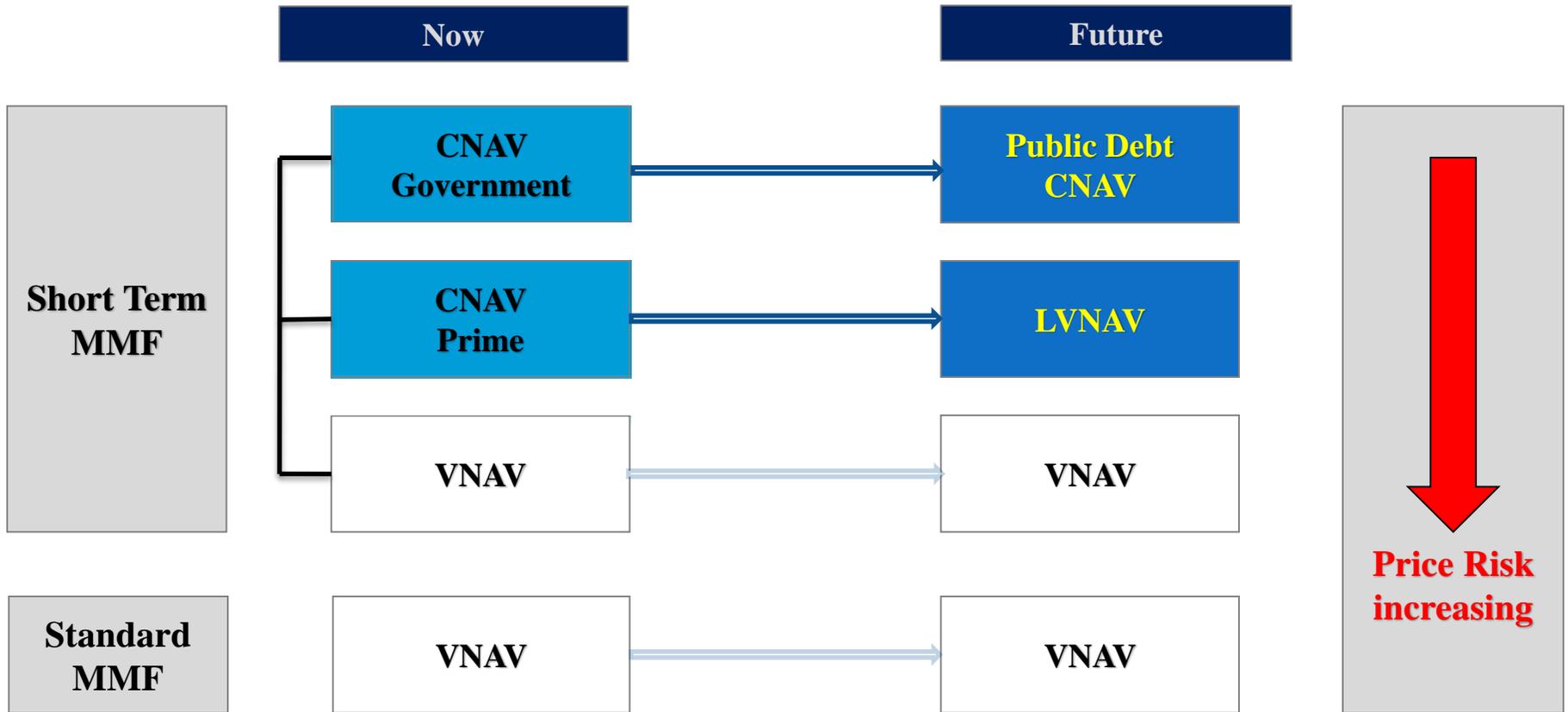
European MMF reform overview – the legislation

- The EU Money Market Fund Regulation (MMFR) builds on existing legislation (UCITS – Directive 2009/65/EC) and will apply directly in every Member State
- Financial stability a core outcome: addressing G20 and Financial Stability Board reform requirements from 2008, so:
 - Substantial focus on liquidity
 - Substantial focus on product structure
 - Support for connected funds not allowed e.g. by parent bank
- MMFR in final stages; content will reflect political agreement reached December 2016

European MMF reform overview – the funds

- Few practical differences between today's MMF and those of the new regime
- Enhanced safety (where not already in place):
 - Higher liquidity requirements
 - More formalised stress testing
 - Greater and more formalised transparency to investors and regulators
- Prospectus changes likely for all MMF
- Cash and cash equivalence to be revisited; with tighter legislative requirements and carrying out of G20/FSB required reforms, should not present problems but may take time

MMFR – Connecting today's MMF to future MMF



The technicalities – LVNAV MMF

	NOW - CNAV MMF (Prime)	FUTURE - LOW VOLATILITY NAV MMF (“LVNAV”)
Fund type	Short Term MMF (ESMA guidelines)	Short Term MMF [Art.3]
Eligible investments	High quality short term money market instruments (principally bank debt) IMMFA Code requires credit quality assessment	Money market instruments, securitisations and ABCP, deposits, derivatives, repo and reverse repo Subject to credit quality assessment [Arts.9-16]
WAM and WAL	60 days / 120 days 397 days maximum residual maturity	60 days / 120 days [Art.24(1)] 397 days maximum residual maturity
Minimum liquidity	Specified by rating agencies	10% daily / 30% weekly [Art.24(1)(c) and (e)]
Liquid assets		Minimum 12.5% cash, reverse repo and deposits Maximum 17.5% government securities to 190 days [Art.24(1)(g)]
Valuation method	Amortised cost accounting for all securities	Amortised cost accounting for securities up to 75 days. Securities with longer maturity to be marked-to-market [Art.29(7)]
Valuation - rounding	Fund collar - 50 basis points rounding (either side)	Fund collar - 20 basis points rounding (either side) [Art.33(2)(b)]
Pricing	To 2 decimal places - £0.01	To 2 decimal places - £0.01 [Art.32(2)]
Shadow NAV calculation	Yes - on a regular basis (not less than weekly)	Yes - “shadow” NAV to be calculated daily Any asset that diverges in value from the CNAV by more than 10 basis points must be valued at mark-to-market until back within 10bp asset collar [Art.29(7)]
Fees and gates	Yes - discretionary	Yes - mandatory when weekly liquidity below 10; otherwise discretionary (as now) [Art.34(1)(b)]
Review clause	ESMA guidelines reviewed as needed	Product to be reviewed 5 years after implementation [Art.46]

The technicalities: Public Debt CNAV MMF

	NOW - CNAV GOVERNMENT MMF	FUTURE - PUBLIC DEBT CNAV MF
Fund type	Short Term MMF (ESMA guidelines)	Short Term MMF
Eligible investments	Portfolio must invest in highest quality short term money market instruments or deposits (cash)	99.5% of portfolio must invest in money market instruments issued or guaranteed by governments and specified institutions, reverse repo and cash
WAM and WAL	60 days / 120 days 397 days maximum residual maturity	60 days / 120 days 397 days maximum residual maturity
Minimum liquidity	Specified by rating agencies	10% daily / 30% weekly
Liquid assets		Minimum 12.5% cash, reverse repo and deposits Maximum 17.5% government securities to 190 days
Valuation method	Amortised cost accounting for all securities	Amortised cost accounting for all securities
Valuation - rounding	Fund collar - 50 basis points rounding (either side)	Fund collar - 50 basis points rounding (either side)
Pricing	To 2 decimal places - £0.01	To 2 decimal places - £0.01
Shadow NAV calculation	Yes - on a regular basis (not less than weekly)	Yes - "shadow" NAV to be calculated daily
Fees and gates	Yes - discretionary	Yes - mandatory when weekly liquidity falls below 10%; otherwise discretionary (as now)
Review clause	ESMA guidelines reviewed as needed	Product to be reviewed 5 years after implementation

European Money Fund reform: timeline

Money Market Fund Regulation – the timeline



05 September 2013

European Commission proposed legislation for MMF reform in Europe

29 April 2015

European Parliament agreed its position on MMFR

17 June 2016

EU Member States (Council of Europe) agreed its position on MMFR

December 2016

Political agreement reached

Q1 2017 - Q2 2017 (expected late May 2017)

Technical work, legal review, translation of text. Publication in Official Journal + 20 days

Q3 2017 – Q4 2018

Secondary legislation finished (12 mths). Funds make changes and re-authorise (18 mths)

2022

5 year review of Regulation

Practical Tips

First tip...



Other tips...

INVESTORS – PRACTICAL TIPS	
1.	Prep the relevant Committee/Council Members so that they know that amendments to investment mandates will be coming.
2.	Collect published presentations and guidance on: <ul style="list-style-type: none">a. Background material on LVNAV and other new MMF products;b. Industry guidance from the Big 4 accounting firms on cash and cash equivalent status of MMF under the new regime;c. New key facts documents from fund managers.
3.	Ask your fund managers about their plans: <ul style="list-style-type: none">a. How will they manage LVNAV against tighter limits, 20bp fund collar in particular?b. What is their transition timetable?
4.	Timetable: be aware that much of the 18 month transitional period for MMF may be taken up by regulators sorting out practicalities. You may not have complete certainty about each MMF until quite late in the process.

Concluding points

- European reform almost there: businesses can now plan
- LVNAV the lead MMF solution to replace CNAV
- IMMFA and its members committed to maintaining standards in the industry
- Additional comfort from statutory regulation replacing more varied set of standards in place now (ESMA guidelines, IMMFA Code, rating)

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