IMMFA position on the Money Market Fund Regulation ("MMFR")

Executive summary

This paper summarises the key issues for IMMFA members in the MMFR. It draws on both the Commission and European Parliament texts.

Product design

IMMFA supports the introduction by the Parliament of new types of fund, but further work is needed to make these funds viable:

- **Low Volatility NAV** (Articles 2(12b), 27): requires further key amendments to ensure the product has longevity and stability, and therefore can offer an attractive investment option for clients (sunset clause and 20bp "collar" need reworking)
- **Public Debt CNAV** (Article 2(22a)): limited scope of eligible investments questioned; currently 95% of CNAV government funds are US$
- **Retail CNAV** (Article 2(12a)): narrow investor base is less stable; funds would be better widened to allow investment by pension funds and natural persons

Structural reforms

- **Capital buffers** (Articles 29-30): introduction of capital buffers would make existing CNAV funds non-viable and pose substantial barrier to entry for new funds
- **Sponsor support** (Article 35): we support restrictions on sponsor support, and suggest that these should be recognised explicitly in Basel III related capital provisions that assume support may be provided to MMF

MMF investments

IMMFA agrees that risk controls for Short Term MMFs should promote the use of high quality assets. It is important that this does not unnecessarily restrict the ability of MMF to invest.

- **Eligible assets** (Article 8): investment in other MMF should be included. Whilst reverse repo is an appropriate asset for MMF, repo (added by the EP Article 8.1(d)) is not
- **Eligible securitisation** (Article 10): the limits set on securitisation holdings are overly tight and will impede funding to business, SMEs. The ESMA guidelines deal with this already
- **Diversification** (Articles 14, 15): To avoid impacting business funding, the diversification and concentration rules should be grouped and limits set in line with existing UCITS rules
- **Liquidity** (Article 21): Equal treatment should be applied to all MMF

Client-facing considerations

- **Transparency** (Article 37): transparency provisions should apply equally to all types of MMF
- **Implementation** (Article 43): the scale of the changes, particularly re-registration and new fund launches, require a much longer period to implement – 24 months as a minimum

About IMMFA and constant NAV MMF

IMMFA represents the institutional money market fund industry that sponsors and promotes funds based on providing a constant Net Asset Value per share to investors. In practical terms this means offering an investment product that, without guaranteeing a result, expects to return €1 plus yield (calculated daily) for each €1 invested.

The MMFR covers future regulation of all EU domiciled money market funds. It fills a gap in existing legislation in relation to investment criteria and quality (which are currently dealt with in the IMMFA Code of Practice and, since 2010, in guidelines set by ESMA). It also deals with several bank-related risks identified by the FSB/IOSCO.

Money market fund investors include large and small corporations, pension funds, charities, public bodies and investment firms. The funds provide two principal capital market benefits:

- Investors have somewhere other than banks to store and manage their cash: they obtain professional cash management and diversification of risk (i.e. from bank deposits);
- Investment activity supports short term funding in the markets, including bank funding.

In that light, the focus of IMMFA comment is to make sure that all MMFs remain viable for clients and continue to offer them the scope to invest.

More detailed comments on key provisions are attached.