

**London, UK – 26 November 2018**

## **End of the road for RDM**

Last week IMMFA members learnt that their regulators would cease to allow the use of share cancellation (RDM) as an operational mechanism for handling money funds invested in negative yielding currencies. This closes an extended period of uncertainty about the future of euro-denominated money market fund products, both within the industry and for investors. Managers will now offer other products in place of the euro LVNAV distribution share class, once the ban on RDM becomes effective.

We understand that regulators and ESMA are aware that time will be required for managers to adjust their fund ranges to reflect the ban on RDM. Investors also need time to make changes to systems and policies and obtain approvals. It is important that regulators now put investor interests to the fore and allow an appropriately specified path to change.

Jane Lowe, Secretary General of IMMFA, commented:

“It has taken an unusually long time for this issue to be concluded and to that extent we are pleased that investors and industry now have certainty. Nonetheless, it is a very disappointing outcome. Investors strongly value the use of constant NAV money market funds and it is unfortunate that an interpretation has been taken of this Regulation that will prevent a widely accepted practice from continuing in these funds. This ban has the perverse effect of blocking investor access to constant NAV money market funds in the core currency of the Union. Such a loss of choice and utility in euro currency funds is most unwelcome for users of the funds and for those, like ourselves, who are strong supporters of the capital market union.

“Our members are resilient, however, and have prepared and will offer other products to their investor base to make good the loss of the euro LVNAV distribution share class following from the ban on RDM.”

**-Ends-**

## **Notes to editors:**

1. IMMFA is the trade association that represents money market funds domiciled in Europe. It was established on 14 June 2000 and has 18 Full members who manage investment funds and 10 Associate members.

2. Money market fund assets managed by IMMFA members stood at €646 billion on 26 October 2018, approximately €82 billion of which is in euro-denominated constant net asset value money market funds. IMMFA members' funds make up 55% of total money market fund assets managed in Europe and dominate the Short Term money market fund sector with upwards of 85% of assets managed.
3. Constant net asset value ("CNAV") money market funds offer a constant net asset value per share to investors. In practical terms these funds expect to return €1 plus yield (calculated daily) for each €1 invested.
4. The new European Regulation (EU) 2017/1131 on money market funds will be fully implemented by 21 January 2019. The Regulation applies directly to all money market funds established, marketed or managed in the European Union.
5. The Regulation establishes two money market fund sectors, Short Term (which bear close similarity to US SEC2a7 regulated money market funds) and Standard, which may invest in longer dated assets. The Short Term sector include two CNAV money market fund types, Low Volatility Net Asset Value ("LVNAV") and Public Debt CNAV. The third money market fund type permitted is Variable Net Asset Value ("VNAV").
6. Share cancellation for negative yield is also known as the reverse distribution mechanism or "RDM". It is a straightforward way of distributing the negative yield that is generated by a portfolio of securities whose yield is negative. The RDM mechanism is applied by funds in line with UCITS rules that govern the distribution of income and in accordance with IFRS principles. It is a long-accepted practice involving investors and the CNAV money market funds in which they are invested.
7. The European Commission made known its negative views on RDM earlier this year to the industry. By contrast, the detailed analysis of RDM and the Money Market Fund Regulation commissioned from a leading law firm by IMMFA found that the legal foundations of RDM were solid. IMMFA has disputed the accuracy of much of the Commission's legal opinion.

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