AUTORITÉ DES MARCHÉS FINANCIERS

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International review of the progress of reforms on the Money Market Funds

Pursuant to the G20 roadmap, IOSCO realizes a first review of the progress of the MMFs reforms. A key topic for the AMF.

In November 2011, the Financial Stability Board, FSB, called on IOSCO to develop recommendations to strengthen the robustness and resilience of money market funds. In October 2012, IOSCO published recommendations aimed at limiting the systemic risk that money market funds may represent, and constant net asset value funds in particular. Nearly three years later, IOSCO is publishing a review of the reforms initiated. The final report will be sent to the FSB (SCSI and plenary) and then to the G20 ahead of the November 2015 Summit.

An assessment based on Eight reform areas

The initial review measures the progress made by each of the 31 member jurisdictions in adopting reforms aiming at improving the oversight of money market funds. The review is made against the eight following reform areas:

1. The scope of reform;
2. Limits in terms of eligible assets and risk taken by MMFs;
3. Rules on valuation;
4. Rules on liquidity management;

5 • Specific Measures for constant net asset value funds;

6 • The use of ratings;

7 • Disclosure to investors;

8 • Limits on the use of repos.

Key conclusions

Several conclusions can be drawn from IOSCO's report. On the one hand, the main jurisdictions have undertaken or finalised comprehensive reforms of their money market funds' sector.

More broadly, the review showed that the large majority of the jurisdictions under consideration had a special regulatory framework for money market funds together with more restrictive provisions than those applying to investment funds as a whole.

However, progress still needs to be made concerning existing provisions on the management of liquidity risk, valuation and the use of external credit ratings.

In addition to the assessment of the eight reform areas mentioned above, the report also examines the various regulatory reforms and market trends of the money market fund sector in the last few years in the three main money market fund markets (USA, Europe and China). In particular, the final report includes a brief analysis of trends in the behaviour of money market funds in an environment of persistently low interest rates, as well as a description of the massive growth of the Chinese money market fund sector in recent years. At the conclusion of the exercise, it would appear that nearly three years after the adoption of the IOSCO recommendations, the main jurisdictions have initiated, and in some cases finalised, comprehensive reforms on money market funds.

Constant net asset value funds: a persistent model
IOSCO's review demonstrates the persistence of the constant net asset value, or CNAV, money market fund model in four out of the five largest markets (USA, China, Ireland and Luxembourg). CNAV funds account for nearly 65% of the total assets managed by money market funds. However, some of these jurisdictions have introduced or are introducing more stringent provisions for CNAV funds. Because their net asset value does not represent the value of the underlying assets, CNAV funds present a heightened risk of decreases in net asset value in the event of market incidents or credit incidents exposing them to the risk of massive investor redemptions.

European reform partially adopted

As it considers the period up to 31 March 2015, the IOSCO review is based on the draft regulation presented by the European Commission in September 2013 and not on the text adopted by the European Parliament on 29 April 2015, which is nevertheless described briefly.

Main points of the European draft regulation adopted by the Parliament
To enable CNAV funds to cope with the initial reimbursement requests from investors, in September 2013 the European Commission proposed that the funds constitute a 3% capital buffer. The idea was not selected by European MPs, who instead opted for the restricted use of the CNAV model exclusively for funds distributed to non-professional investors (charity organisations, not-for-profit organisations, public administrative bodies, public foundations) or invested as a majority in European public debt securities. They also voted in favour of the creation, for five years, of a new type of fund: the low volatility money market fund (LV NAV MMF). This last may continue to use the technique of amortised cost for securities with maturities of less than 90 days and show a constant net asset value within the limit of 20 basis points relative to the market value of the fund portfolio. Beyond that threshold, these types of fund will be obliged to vary their net asset value in line with the market value of the underlying instruments.

The next steps

A second review of the progress achieved in the adoption of reforms will be made in 2016. It may be followed by an examination of the consistency of the reforms with IOSCO's policy recommendations.

For the Autorité des Marchés Financiers (AMF), the reform of the oversight of money market funds is a major financial stability issue. The AMF stressed the importance for the European Union to achieve ambitious reform which would enable mitigating financial stability risks associated with these products while maintaining their key role in the financing of our economies as part of its response to the public consultation launched by the European Commission for a Capital Markets Union.

Read more

- Capital Markets Union: challenges and priorities for the Autorité des Marchés Financiers
- Peer Review of Regulation of Money Market Funds : Final Report
- FSB Website

Keywords MMF

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