



Box 1:

RECOMMENDATIONS ON MMFS PROPOSED BY THE ESRB

Within the ESRB, an Expert Group on Money Market Funds was established to examine the need to issue Warnings or Recommendations in line with the ESRB's macro-prudential monitoring mandate¹³. The Group has identified a set of four possible Recommendations related to CNAV versus VNAV funds, imposing liquidity requirements, enhancing public disclosure related to the marketing material of MMFs and improving reporting and monitoring standards.

During the December 2012 meeting of the ESRB General Board, a recommendation to require MMFs to make a mandatory move to VNAV was approved and will be published in February 2013. This recommendation will now be sent to the European Commission who will publish legislative proposals for the UCITS framework and MMFs in early 2013.

The text of the ESRB's Recommendations on Money Market Funds follows:

RECOMMENDATION A – MOVE TO VNAV

The European Commission is recommended:

1. to require MMFs to have a fluctuating net asset value;
2. to require MMFs to make general use of fair valuation and to restrict the use of amortized cost accounting to a limited number of pre-defined circumstances.

RECOMMENDATION B – LIQUIDITY REQUIREMENTS

The Commission is recommended to ensure that the relevant Union legislation:

1. complements the existing liquidity requirements for MMFs by imposing explicit minimum amounts of daily and weekly liquid assets that MMFs must hold;
2. strengthens the responsibility of the funds' managers regarding the monitoring of liquidity risk;
3. ensures that national supervisory authorities and funds' managers have in place effective tools, for example temporary suspensions of redemptions, to deal with liquidity constraints in times of stress resulting from both fund-specific and market-wide developments.

RECOMMENDATION C – PUBLIC DISCLOSURE

The Commission is recommended to ensure that the relevant Union legislation:

1. requires specific disclosure by MMFs, also in their marketing material, that draws the attention of investors to the absence of a capital guarantee and the possibility of principal loss;

¹³ Separately from the ESRB, Every two years the ECB publishes the Euro Money Market Study which covers the structure and functioning of the euro money market. The published results are based on a survey conducted by the European Central Bank in cooperation with national central banks that are members of the Eurosystem. The Study incorporates data and tables from a regular data survey.

2. requires that MMFs refer in their public disclosure to possible sponsor support, capacity for support or protection only if such support or protection is a firm commitment by the sponsor, in which case it must be recognised in that sponsor's accounts and prudential requirements;
3. requires MMFs to disclose their valuation practices, particularly regarding the use of amortised cost accounting, as well as to provide appropriate information to investors regarding applicable redemption procedures in times of stress.

RECOMMENDATION D – REPORTING AND INFORMATION SHARING

1. The Commission is recommended to ensure that the relevant Union legislation:
 - (a) requires that any instances of sponsor support that may have an impact on the price of the MMF are reported by the MMF or its manager, and the sponsor, to the competent national supervisory authority, together with a full description of the nature and size of such support;
 - (b) enhances regular reporting by MMFs;
 - (c) ensures that competent national supervisory authorities, where relevant, share the information referred to in points (a) and (b) with other national supervisory authorities within the same Member State, or from other Member States, the European Supervisory Authorities, the members of the European System of Central Banks and the ESRB;
2. The Commission is recommended to promote the development of harmonised reporting and a harmonised data set as mentioned in paragraph 1(b), and the organisation of information sharing mentioned in paragraph 1(c).

III. FINANCIAL STABILITY AND MONEY MARKET FUNDS

The systemic relevance of money market funds was clearly illustrated during the September 2008 run on MMFs that occurred during the 2007-2008 crisis episode. Even though MMFs were not directly responsible for the outbreak of the financial turmoil at that time, their systemic relevance and potential to amplify or exacerbate the existing turmoil lead to their identification as a driving factor in the broader stability of the financial system.

MMFs play a systemically important role as net liquidity providers to financial institutions as well as the wider financial sector in Europe, including private household investors. Since 2006, the European MMF industry was estimated to have approximately €1 trillion in assets under management¹⁴ (AuM) with France, Ireland and Luxembourg accounting for 90% of the total aggregate market share. According to the ECB, however, as of end-2012 the total amount of AuM of euro area MMFs fell below €1 trillion for the first time since 2006¹⁵. The results of the ECB Study indicate that the fall in AuM seems to be a result of the continuing low interest rate environment along with a robust demand for bank deposits which benefit from the deposit guarantee schemes in place in a number of Member States.

14 J. Ansidei, E. Bengtsson, D. Frison and G. Ward, "Money Market Funds in Europe and Financial Stability," ESRB Occasional Paper Series, No. 1/June 2012.

15 Source: ECB Euro Money Market Study, December 2012.